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A call to Washington

Nearly a year after implementation of the Durbin Amendment to the Dodd-Frank Act of 2010 began, members of the payments industry have coalesced in Washington to exert greater influence in shaping policies governing the industry moving forward. For many, the debit interchange fee regulation set forth under said amendment represented a direct challenge to one of the key tenets of free enterprise: it blurred the line between government and private industry in determining pricing.

To put it into perspective, during the Electronic Transactions Association's 2012 annual meeting, Mary Bennett, ETA Director of Government and Industry Relations, proclaimed "the era of self-regulation has ended." She later told *The Green Sheet* the Durbin Amendment marked the first time in recent years Congress had passed price controls on private industry, recalling the 1970s price controls on oil, consumer prices and wages, which led to gas shortages and higher inflation.

Today's surge of intervention by lawmakers correlates closely with the financial collapse of 2008 and the failure of existing regulations to control the perpetrators. "The general sentiment was that the financial industry was out of control and reckless and needed to be reined in and pulled back," Bennett said. "That kind of atmosphere is what we had in Washington, and I would argue still persists today.

"It really was the first time we saw legislation and regulation that dug deep down into our business models. The Durbin Amendment was different. It struck deep into the bowels of the business and set a price. I had many people say to me, 'I had no idea that government could decide how to price things.' They were stunned by it, and even people in Washington were stunned by it."

In the original bill proposed by Sen. Richard Durbin, D-Ill., regulation of credit interchange was also stipulated. But Bennett attributes educational efforts on Capitol Hill by bank and industry groups with convincing lawmakers to exclude credit in the final draft. However, the battle may not be over. "Retail

See call to Washington on page 51

NotableQuote

We all have a responsibility to be a voice. The meetings that we had with the CFPB and the FTC were incredibly successful, but that would be a one-time success if we don't build on it.

See Story on page 52

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Forum

Processors must be EMV-ready in 2013

I just wanted to point out that the card brands, now including American Express, are only requiring processors to support EMV [Europay/MasterCard/Visa] payments by the April 2013 deadline. No deadline has been provided requiring merchants to accept EMV chip and choice payments.

For reference, see *http://about.americanexpress.com/news/pr/2012/dmv_roadmap.aspx.*

Andrew L. Snell
Client Services Coordinator
Gravity Payments

Andrew,

Thanks for this clarification. We had erroneously reported in "AmEx joins EMV push," The Green Sheet, *July 23, 2012, issue 12:07:02, that American Express Co. "is requiring merchants to have EMV-equipped terminals in place by April 2013."*

We have corrected the online version of the story. For readers' benefit, following is an excerpt from the AmEx press release you referenced.

- *By April 2013, processors must be able to support American Express EMV chip-based contact, contactless and mobile transactions.*
- *Beginning October 2013, merchants will be eligible to receive relief from PCI Data Security Standard (DSS) reporting requirements if the merchants' point-of-sale (POS) acceptance locations, where 75 percent of their transactions occur, are enabled to process American Express EMV chip-based contact and contactless transactions.*
- *Effective October 2015, American Express will institute a Fraud Liability Shift (FLS) policy that will transfer liability for certain types of fraudulent transactions away from the party that has the most secure form of EMV technology. U.S. fuel merchants will have an additional two years, until October 2017, before the FLS takes effect for transactions generated from automated fuel dispensers.*

Editor

From GS Online's MLS Forum

The premier online network for payment pros

Thoughts on loyalty

Recently **M1CHAEL** started a thread on GS Online's MLS Forum titled "Is loyalty really all it's cracked up to be?" He wanted to know whether loyalty programs lead to an overall increase in sales and whether there's a causal connection relationship between loyalty efforts and a change in consumer behavior.

"I have yet to have a merchant who is really interested in gift/loyalty," **M1CHAEL** wrote. "I haven't written much restaurant business though either, and I suspect that the restaurant vertical is one that stands to benefit from loyalty/gift more so than others. Personally, I don't know that an SMS message is going to really influence my buying behaviors. What do you think? What's been your experience?" Following are excerpts from responses he received:

"Loyalty in customers is created by the product, service and supporting the customer. If you pay $25 or $40 per month for a loyalty system and identify your best customers, you can easily drive response from these programs to bring them back and pay for your investment. ... I think there is a market to identify the unknown client and make them a loyal or returning customer. ... [If] the product or service is not good, no loyalty program in the world can help bring them back.

"Does the card in your wallet drive you to McDonalds, the dry cleaner or other location? Most of the time no, but if there is value add and I'm going anyway, I will use it. [Loyalty programs] are sticky, keep clients from converting and pay for the investment, in those cases, in my opinion, they are a win."

– JGARZA

"Speaking as a consumer, most loyalty programs I've seen are just an excuse for the merchant to build a database and send me crap in the mail, my email, and sell my info to other companies so they can do the same."

– J DAWSON


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A quick summary of key articles in this issue to help keep you up-to-date on the latest news and hot topics in the payments industry.

1
Cover Story

A call to Washington

Nearly a year after implementation of the Durbin Amendment to the Dodd-Frank Act of 2010 began, payment professionals have coalesced in Washington to influence the policies that will impact the payments industry moving forward. Many feel the era of self-regulation for our industry is over. What are you doing to ensure your business interests are given their due?

27
News

Durbin urges merchants to reject proposed settlement

Sen. Richard Durbin, D-Ill., denounced a proposed settlement of claims that the interchange fees charged by MasterCard Worldwide, Visa Inc. and several issuing banks violate provisions of the Sherman Antitrust Act. He urged merchants to reject the settlement and stated the proposed settlement allows Visa and MasterCard to unfairly set interchange fees with impunity.

25
News

ETA goal remains growing ISOs

The addition of the four major mobile network operators to the Electronic Transactions Association's member ranks and an increased focus on the emerging mobile payments industry will not alter the association's goal to help ISOs and other members grow their businesses. In fact, the aim is to foster more opportunities for ISOs, processors and acquirers.

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News

ThreatMetrix warns of new malware

Sophisticated new malware programs are not only difficult to detect, track and contain, but they also have highly specific targets, according to a ThreatMetrix Inc. report. As a result, the reputation of electronic devices touted as "malware free" is eroding, and the threat to financial institutions and mobile devices is growing.

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News

TSYS, Central Payment form joint venture

In a joint venture, global ISO and processor Total System Services Inc. (TSYS) acquired 60 percent of U.S. ISO acquirer and processor Central Payment Co. The agreement allows Central Payment to continue to work independently as a sales agent-based merchant acquirer. TSYS will continue as Central Payment's payment processor.

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Feature

Good and bad in Green Dot reforecast

One day after Green Dot Corp. warned analysts and investors in its July 26, 2012, conference call about potential threats to its business model, the general purpose reloadable prepaid card provider's stock plummeted 60 percent. Two main pressures may impact Green Dot's revenues: increased competition and tighter fraud controls the company instituted.

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Feature

Bankers oppose CFPB remittance rule

The Consumer Financial Protection Bureau updated the international money transfer rules, despite urging from the financial services sector that it delay the rule until further study of its potential effects on consumers. Consumer advocacy groups endorsed the updated rules; bankers' associations said the rules will reduce consumer choice in sending international remittances.

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View

What's still in your wallet?

If dollars spent were the qualifying factor, cash would win the popularity contest hands down. Prepaid cards and mobile payments may help displace cash from its position of prominence in our wallets, but mobile payments are not yet mainstream, and using prepaid cards to replace cash isn't as easy as some tout it to be.

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Feature

New times, new strategies: What are you doing? – Part 3

Members of *The Green Sheet* Advisory Board were asked for ideas on how businesses can survive and thrive in a changing payments landscape. In the final segment of responses, industry leaders advise payment professionals on how to capitalize on the current business climate, the importance of having a vision for your company and how to evaluate new business models.

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Education

Street Smarts℠

Stocking your MLS toolbox

Each salesperson needs a well-stocked toolbox. It may not consist of physical tools, but it does hold what we need to be successful. The challenge is that it's easy for a toolbox to become so large that it hinders a sale rather than helps it. Whether you are new to the industry or a seasoned veteran, you need to determine the most appropriate items for your toolbox.

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Education

The long tail of the Durbin Amendment

The July 2012 settlement Visa and MasterCard reached with a class of retailers may create another temporary interchange reduction event, not unlike the 2004 "Wal-Mart" settlement. While the basic impacts for issuers and merchants are clear, subtle factors, specifically related to the Durbin Amendment, could impact acquirers for years to come.

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Education

Pay-at-the-table systems pay for themselves

If you were the owner of a small to midsize quick service restaurant or casual dining establishment, you might have considered implementing a pay-at-the-table solution. But chances are, you wouldn't have done it. Why? For starters, such systems can be expensive. Traditionally, each license per register costs $1,500 to $5,000. And that's just the license.

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Education

Countdown to TIN deadline: Are you ready?

Mere months remain for acquirers to completely validate their merchant portfolio tax identification numbers (TINs) and legal business names with the Internal Revenue Service. Despite industry awareness, multiple remaining concerns may develop into an industrywide hailstorm as the deadline looms.

81
Inspiration

Pause before you post

In recent years, we have become voracious consumers of social media. Many of us even feel we can't go one day without interacting with "friends" on Facebook, Twitter, LinkedIn and other popular social media sites. Given how public our lives have become, it's important to put decorum and discretion front and center during business and personal interactions online.


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NEWS

ViVOtech restructures

Near field communication (NFC) payment software provider **ViVOtech Inc.** is restructuring operations and shedding its reader business to focus on its software business. On Aug. 6, 2012, ViVOtech reported it completed the sale of its card reader assets, technologies and ViVOpay trademark to POS manufacturer ID Tech.

ViVOtech said in a July 27, 2012, statement that it has "not ceased operations but is in the process of restructuring operations and has reduced its team to a smaller group with the goals of maintaining customer relationship[s] and core contract work, and to address our supplier relationships and commitments."

Fed approves debit security fee

Debit card issuers can receive up to 1 cent per transaction to pay for transaction security costs under the final rule approved by the **Federal Reserve Board**. The new rule amends the Fed's debit card interchange fee regulation that went into effect in October 2011.

Issuers have to develop and implement policies and procedures designed to reduce debit card fraud to be eligible to receive the extra penny on every transaction conducted with debit cards. Issuers must also annually review and adjust security policies. It is the responsibility of issuers to notify the card brands each year that they comply with the regulation and are eligible for the adjustment.

The Merchants Payments Coalition, a national retail lobbying group, criticized the final rule for "making merchants pay for fraud prevention even if banks don't prevent fraud." The MPC said merchants already pay a large percentage of card fraud losses and now the Fed is requiring retailers to also pay 100 percent of banks' fraud prevention costs.

"The Fed rule rewards banks with more merchant funds if they self-determine that they prevent fraud," the MPC noted. "That will not be effective and regulators should have to find that the banks actually reduce fraud before they get more funds."

EC objects to MIFs

Visa Inc.'s multilateral interchange fees (MIFs) may violate European Union antitrust rules, according to the **European Commission**, the governing body of the EU.

"The Commission considers that Visa's MIFs harm competition between acquiring banks, inflate the cost of payment card acceptance for merchants and ultimately increase consumer prices," the EC said in a July 31, 2012, statement. "The Commission's analysis follows closely the judgment of the EU General Court of May 2012 in the MasterCard case, which fully upheld the Commission's finding in this respect."

The EC further claimed Visa's rules that require cross-border acquirers to pay MIFs handicap cross-border acquiring and violate EU rules by maintaining national market segmentation.

The MPC said the EC's statement confirms that interchange fees set by card companies skirt "antitrust laws and the principles of market competition." MPC Counsel Doug Kantor said, "European regulators are taking action to deal with Visa's outrageous swipe fees – even though the fees in Europe are a tiny fraction of what they are in the United States. This should be a wake-up call that credit card swipe fee reform is long overdue here."

- The **U.S. Census Bureau** estimated U.S. retail and food services sales, seasonally adjusted, grew to $403.9 billion in July 2012, an increase of 4.1 percent over last July.

- According to the **National Automobile Dealers Association**, the U.S. auto industry sold 1.1 million units in July 2012, up 8.9 percent from July 2011.

- A **Research and Markets**' *Garden Centers & Farm Supply Stores* report projects combined annual revenue of about $30 billion in 2012 for the 16,000 garden and farm supply stores operating in the United States

A representative of Visa Europe did not respond to a request for comment.

To the cloud for Google Wallet

Google Inc. said it is moving the NFC-enabled Google Wallet platform from the mobile phone to the online cloud. The new cloud-based Google Wallet application will support all credit and debit cards.

"We changed our technical approach to storing payment cards," Robin Dua, Google Wallet Head of Product Management, said. "The Google Wallet app now stores … payment cards on highly secure Google servers, instead of in the secure storage area of the phone. A wallet ID (virtual card number) is stored in the secure storage area of the phone, and this is used to facilitate transactions at the point of sale."

Google said the new app accelerates the integration process, allowing banks to add their cards to the Google Wallet app in just a few weeks – and at no cost. If phones are lost or stolen, the Google Wallet app can be remotely disabled online. After Google Wallet is disabled, Google will not authorize transactions on that device. If Google manages to remotely locate the lost or stolen device, it will reset the wallet, clearing it of sensitive card and transaction data.

ANNOUNCEMENTS

First airline on board Acculynk

American Airlines Inc. agreed to use **Acculynk**'s payment system PaySecure for online PIN debit transactions. Travelers who use debit cards to make purchases on AA.com will be able to enter PINs on PaySecure's graphical PIN pad. Encrypted PINs are transmitted directly over the electronic funds transfer network and are never stored by the airline or Acculynk.

Capital Payments now Bluefin

Gateway software provider **Capital Payments LLC** changed its name to Bluefin Payment Systems. Atlanta-based Capital Payments merged with Tulsa, Okla.-based Bluefin Payment Systems in July 2012.

CSR execs achieve CIPP

Payment Card Industry (PCI) Data Security Standard (DSS) compliance services provider **Compliance Solutions and Resources** said Darrel Anderson, Executive Vice President of Sales and Client Solutions, and Jan Carroza, Director of Corporate Communications, were confirmed as Certified Information Privacy Professionals by the International Association of Privacy Professionals.

New EMV solution unveiled

Identity security and card personalization firm **Datacard Group** released an upgrade to its CardWizard issuance software that helps card issuers migrate to Europay/MasterCard/Visa- (EMV) compliant smart card solutions. The EMV technology upgrade package offers a phased approach that allows customers to integrate smart card personalization services into existing card issuing environments.

Fed releases government payment study

The **Federal Reserve Bank of Philadelphia** released a summary of its conference entitled *Government Use of the Payment Card System: Issuance, Acceptance, and Regulation*. The summary, which explores consumer adoption and benefits of payment card options, is available at *www.philadelphiafed.org/consumer-credit-and-payments/*.

Discover certifies First Data

Discover Financial Services certified **First Data Corp.**'s Trusted Service Management solution for usage with Discover Zip, a mobile app that allows for NFC-enabled transactions.

In other news, First Data said its July 2012 *SpendTrend*, a monthly comparison of year-to-year same-store electronic commerce data, found sluggish spending growth in July 2012 compared to July 2011. However,

SpendTrend reported spending upticks in back-to-school supplies, discount retailing and housing. Summer vacation spending on hotels also saw growth.

GoPago offers free POS hardware

Cloud-based mobile payment app provider **GoPago Inc.** is offering free POS hardware and software to merchants using its GoPago LIVE payment system. The hardware includes a free Google Android tablet (loaded with GoPago software), tablet stand, cash drawer, receipt printer and credit card reader. GoPago LIVE charges a fixed per-transaction fee of 2.85 percent.

Meritus launches mobile app

Irvine, Calif.-based ISO **Meritus Payment Solutions** released a mobile payment solution called Meritus Mobile. The app turns Apple Inc. mobile devices, along with Android and Research in Motion Ltd. BlackBerry devices, into PCI DSS-compliant credit card processing terminals. The system features optional credit card swipe and printer peripherals.

New app from Vantiv

Merchant acquirer **Vantiv Inc.** introduced a new mobile payment application called Vantiv Mobile Accept. The app encrypts credit, debit and prepaid card transactions conducted via mobile devices.

VeriFone extends contactless into Mexico

Terminal manufacturer **VeriFone Inc.** is releasing what it calls the first major contactless payment system in Mexico City in conjunction with the Mexican financial institution **Grupo Financiero Banamex**. VeriFone's contactless-enabled card terminals are reportedly in service at 1,900 Mexico City merchants. The bank is issuing 100,000 NFC-enabled credit and debit cards to be used on the terminals.

In other news, VeriFone said department store retailer **Beall's Inc.** is now using VeriFone's media-enabled terminals. VeriFone also reported it won a five-year contract worth more than $35 million to be the exclusive vendor for the District of Columbia Taxicab Commission Smart Meter project.

W.net touts online career center

The **Women's Network in Electronic Transactions** (W.net) launched an interactive job board focusing on companies in the payments industry. W.net said the online service is an easy-to-use and highly targeted employment resource. The board is open to both W.net members and nonmembers. For more information visit the W.net Career Center at *www.wnetonline.org/career-center*.

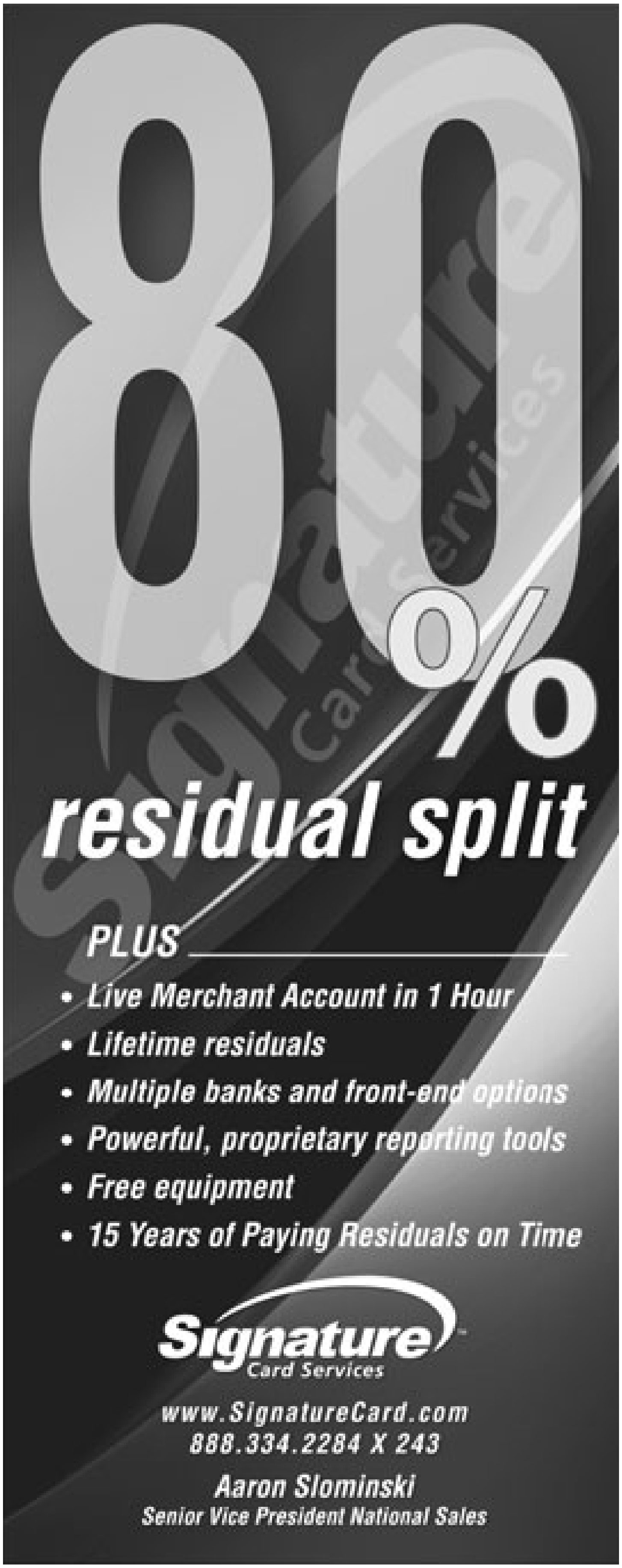
PARTNERSHIPS

SBS for hospitality

Hospitality industry software solutions provider **Aldelo LP** and payment processor **Sterling Payment Technologies** rolled out a restaurant POS subscription service called Sterling Bundled Services. "SBS will allow our dealers to close more sales while making hardware and software acquisition easier for the hospitality industry," said Aldelo President Harry Tu.

Computop joins hybris program

Bamberg, Germany-based gateway provider **Computop Inc.** joined the Extend partner program of **hybris**, a multichannel commerce software platform company. The deal enables hybris Commerce clients' access to the Computop Paygate global payment platform.



Companies integrate for Magento

DataCash Group Ltd., a multichannel payment processor and MasterCard Worldwide company, worked with **Session Digital Ltd.** to integrate Datacash's processing module with the e-commerce platform Magento. The platform, owned by online auction site eBay Inc., serves over 100,000 merchants globally by enabling them to build and operate online stores.

Meritus integrates with OrderLogix

Meritus Payment Solutions partnered with order management solutions company **OrderLogix Inc.** to integrate its gateway solution, Payment XP, with OrderLogix's order management applications. The resulting system offers continuity programs, advanced reporting and advanced customer service solutions to small and midsize businesses.

Moneris adds online registration service

Canada-based merchant acquirer **Moneris Solutions Corp.** teamed with **GoSignMeUp**, an online registration provider for classes, events, workshops and training. Moneris integrated its proprietary eSelectPlus payments gateway with GoSignMeUp to provide payment processing directly through GoSignMeUp's registration software.

JV forms for mobile apps

Multimedia company and application developer **Neutrino Media Group Inc.** entered a joint venture with cloud-based mobile payment platform provider **QuickPay Corp.** to develop Neutrino's suite of mobile apps. The new suite, to be marketed as "ROYCE powered by QP QuickPay," will be used to pay for parking, shopping and travel.

Deutsche Telekom working with Wirecard

Two international German companies formed a strategic partnership. Electronic payment and risk management solutions provider **Wirecard AG** will provide payment processing for telecommunications firm **Deutsche Telekom AG**. Wirecard will also provide technical support for the Telekom MasterCard Wirecard and help launch Deutsche Telekom's mobile wallet in 2013.

ACQUISITIONS

Affiniture buys Diners Club businesses

Private investor group **Affiniture Cards Ltd.** purchased from **Citigroup Inc.** the Diners Club card issuing businesses in the United Kingdom and the Republic of Ireland. Citi said it is divesting assets and businesses in its Citi Holdings portfolio to concentrate on growing its core franchise, Citicorp. Terms of the deal were not disclosed.

Global steps it up with Accelerated

Payment processor **Global Payments Inc.** acquired payment technology company **Accelerated Payment Technologies Inc.** from the private equity firm Great Hill Partners. The $413 million cash deal is expected to close in Global's 2013 second fiscal quarter.

APPOINTMENTS

ACI makes executive moves

International payment processor ACI Worldwide Inc. hired **Daniel Frate** as Executive Vice President of Global Markets and Product Management. Frate was formerly Executive Vice President and Head of Products and Pricing for PNC Bank. ACI said Frate is responsible for "alignment of product roadmaps with market needs."

David Morem left his position as Executive Vice President of Global Products to become ACI's Executive Vice President of Global Maintenance. He will be responsible for product maintenance and customer support operations. Morem replaced Ralph Dangelmaier, who left ACI to head a private company.

Jared new to Merchant Link

Cloud-based payment gateway and data security solutions provider Merchant-Link LLC made **Ben Jared** its new Director of Business Development. Jared, who was previously Area Sales Director for ACI, brings experience in international payment processing, payment security and PCI compliance, to his new position of developing Merchant-Link's retail vertical.

Meritus adds two execs

Jon Lindhjem and **Jason VanWagoner** were appointed to executive positions at Meritus. Lindhjem was named Vice President of Business Development, where he is responsible for marquee clients, partner relationships and software integrations.

Prior to joining Meritus, Lindhjem worked for merchant service provider TransFirst LLC and founded mobile shopping app developer NuWallet Inc.

VanWagoner is the new Director of Business Development and takes on the responsibility of growing Meritus' business through the direct selling and direct response arenas. VanWagoner was formerly Director of Strategic Business Channels at Molding Box Inc., an outsourcer of printing, shipping and handling services.

ETA goal remains growing ISOs

Jason Oxman, Chief Executive Officer of the Electronic Transactions Association, said the addition of the four major mobile network operators (MNOs) to the ETA's member ranks and an increased focus on the emerging mobile payments industry will not alter the association's goal to help ISOs and other members grow their businesses.

The MNOs – AT&T Inc., Sprint Nextel Corp., T-Mobile USA Inc. and Verizon Wireless – are also joining the ETA's new Mobile Payments Committee, Oxman reported. These are the same companies partnering in Isis, the mobile wallet company, which is already an ETA member and member of the special committee.

New committee brings big players

The Mobile Payments Committee is a task force convened to foster innovation and create interoperability among the mobile payments players; to share best practices that ensure innovative and effective mobile payments solutions are available; and to educate legislators, regulators, consumers and merchants on mobile payments' efficiency, reliability and security, Oxman said.

Google Inc. and PayPal Inc. also are joining the committee, along with representatives from the association's more than 500 credit card companies, processors, developers, financial institutions and device manufacturers.

The ETA's board directed Oxman to form the committee now, while it is still early enough in the evolution of mobile payments technology to bring the market segment participants together to begin the process of addressing industry-wide issues, the CEO said.

"We are asking our members to take off their company hat and to put on an industry hat to address policy, technical and interoperability issues that will help the segment's success," Oxman stated.

Opportunity for ISOs

The trade association's decision to open its doors to new payment companies does not mean the ETA is forgetting its mission to help the smaller member companies offering electronic transaction processing products and services.

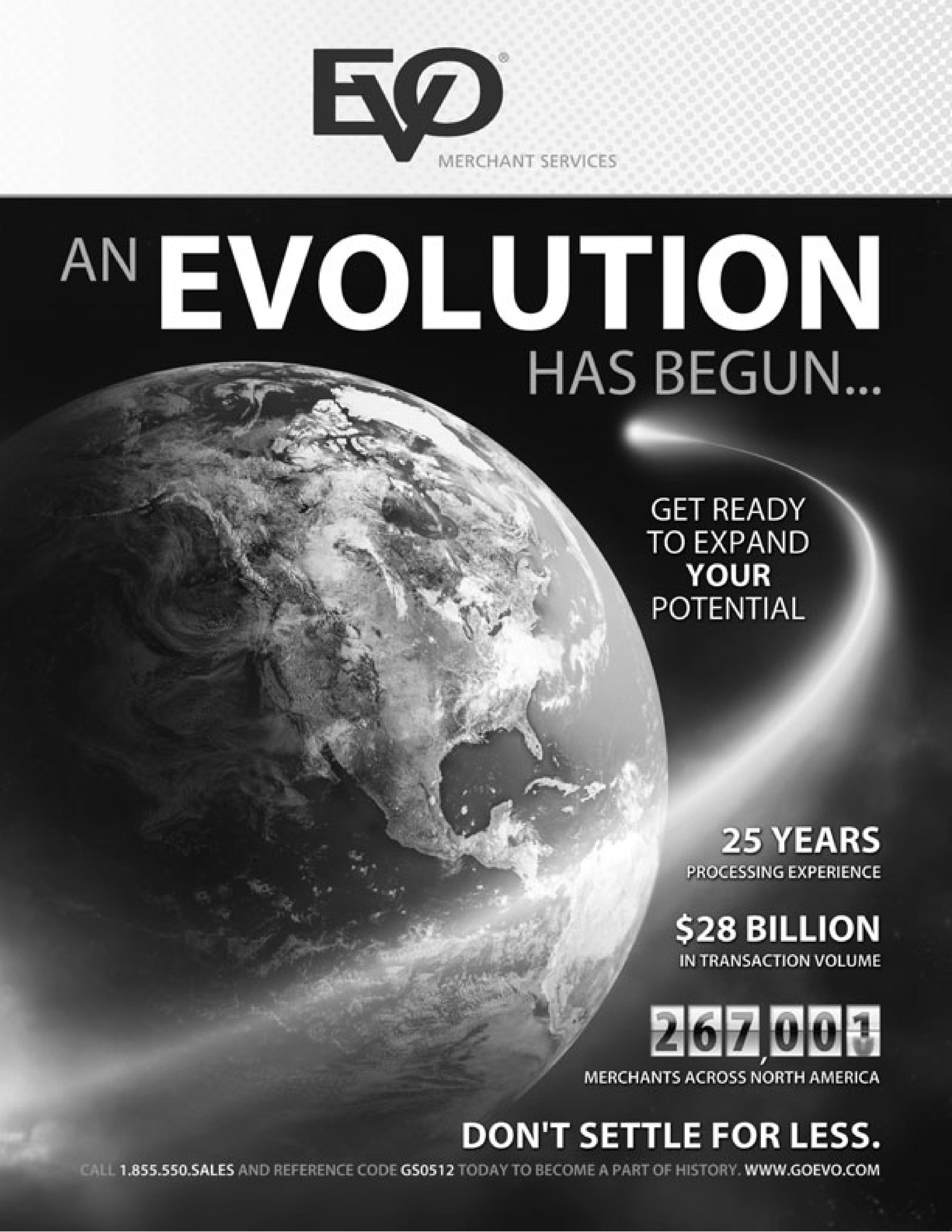
"As Eddie Myers, the President of our board of directors, likes to say, 'We are enlarging our tent,'" Oxman said. "The next step in the ETA is this effort to become the hub of activity in mobile payments. The committee is an extension of a wise decision by the ETA board of directors to engage in mobile payment to create new business opportunities and create innovation."

Oxman noted, "The most optimistic projections are that there will be $107 billion in mobile payments in 2012, out of $3.6 trillion in transactions in the United States. Mobile payment is still a drop in the bucket. Our goal is to grow our members' business and foster more business opportunities for ISOs, processors and acquirers. We want to help grow the whole pie for every participant in the industry."

TSYS, Central Payment form joint venture

In a joint venture revealed Aug. 9, 2012, global ISO and processor Total System Services Inc. (TSYS) acquired 60 percent of U.S. ISO and processor Central Payment Co. LLC. TSYS, a publicly traded company, said through its spokesman Cyle Mims, it is "unable to disclose the terms of the agreement."

Central Payment focuses on restaurant, personal services and retail market segments. It serves more than 40,000 merchants and processes more than $3.5 billion in credit card sales annually. TSYS is an international company valued at approximately $3 billion; its broad platform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supports financial institutions, businesses and governments in 80 countries.

TSYS, Central Payment both benefit

TSYS Merchant Services President Mark Pyke said the addition of Central Payment with its 700 agents enhances his company's distribution model. "This move is another example of our focus on growing our merchant acquiring business and expanding beyond processing," Pyke said. "Central payment plans to aggressively pursue experienced sales agents as an affiliate of TSYS."

Pyke said TSYS' reputation and scalable technology platform model will help Central Payment expand its independent sales agent model. "TSYS has made public statements about having an aggressive appetite for additional merchant acquiring investments to help grow our merchant presence and achieve our goal to become a top 10 global acquirer," he noted. "This joint venture further reinforces our commitment to diversification of our revenue concentration within TSYS."

Individual brands remain distinct

Pyke said the two companies worked together for some time before the joint venture. The agreement allows Central Payment to continue to work independently as a sales agent-based merchant acquirer. TSYS will continue as Central Payment's payment processor.

"Central Payment has a strong brand reputation and solid sales distribution model which will not be disrupted as a result of the joint venture," Pyke said. "The JV will be governed by a board of directors with representatives from both companies."

Central Payment Co-Managing Director Matthew Hyman said Central Payment plans to take full advantage of the systems, support and management team TSYS has in place today and that the joint venture positions both companies for significant growth. "Our partnership expands TSYS' merchant perspective, and our company culture aligns with their focus on people-centered payments," he said.

Durbin urges merchants to reject proposed settlement

Sen. Richard Durbin, D-Ill., denounced a proposed settlement of claims that the interchange fees charged by MasterCard Worldwide, Visa Inc. and a number of issuing banks are unfair and violate provisions of the Sherman Antitrust Act. Durbin authored an amendment to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act that gave the Federal Reserve Board authority to cap debit interchange fees.

The more than $7 billion settlement proposal agreement was divulged in July 2012 by lawyers appointed by the Brooklyn Federal District Court to represent the nearly 7 million merchants in the class. If Federal Court Judge John Gleeson accepts the settlement, which merchant lawyers said will be submitted for the court's preliminary approval by Oct. 19, it would be the largest settlement in Sherman Antitrust history.

Nonetheless, some of the largest retailers and retail organizations in the country, organizations such as Wal-Mart Stores Inc. and The National Association of Convenience Stores, said they intend to opt out of the settlement.

Secret negotiations

In remarks published in the Congressional Record Aug. 2, 2012, to commemorate the two-year anniversary of the Dodd-Frank Act, Durbin said the interchange fee settlement was negotiated in secret by "attorneys representing a small number of merchants."

The senator urged merchants to reject the proposed settle-


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ment and stated it still allows Visa and MasterCard to unfairly set interchange fees and unwisely grants the card companies immunity from all interchange fee antitrust claims past and future. He also said proposed changes allowing merchants to surcharge and collectively negotiate interchange rates with card companies "will be ineffective in reining in Visa and MasterCard's unreasonable fees."

The senator said merchants should reject the settlement because it "gives Visa and MasterCard free rein to carry on their anti-competitive swipe fee system with no real constraints and no legal accountability to the millions of American businesses that are forced to pay their fees."

Mobile payments in the spotlight

Payment technology is changing at breakneck speed, and mobile solutions, in particular, have been making news throughout 2012. The first week in August continued that trend, with a number of noteworthy developments in the mobile sphere.

Fed looks at new regulatory needs

The Federal Reserve is closely following mobile payment events. Among the Fed's concerns is the entry into the payments industry of companies with no payments background.

Cynthia Merritt, Assistant Director of the Retail Payments Risk Forum at the Federal Reserve Bank of Atlanta, confirmed in an Aug. 6, 2012, blog post that authorities are beginning to look at mobile payment developments. "The rapidly changing environment and the entry of nonbanks in mobile-enabled financial services create a new paradigm in regulatory oversight for consumer protections, bank safety and soundness, and regulatory compliance," she wrote.

The Federal Reserve Banks of Atlanta and Boston recently hosted a meeting between members of the Fed's Mobile Payments Industry Workgroup and regulatory authorities. The group includes representatives from the biggest companies across the spectrum of the payments industry, including mobile wireless providers, financial institutions, payment processors, industry associations, retailers and technology companies.

According to a summary of the meeting released Aug. 6, 2012, and available at *www.frbatlanta.org/documents/rprf/rprf_pubs/120730_wp.pdf?d=1&s=blogpr,* the participants concluded no additional regulation is needed to oversee mobile payments, but there is a need to better understand existing regulations and how they apply to mobile payment service providers.

The group noted that rapid change in mobile payments requires the close attention of regulators who will "require that financial institutions adequately manage vendors when they outsource and partner with third parties in new mobile payment business models."

Visa, ETA sound off on EMV, NFC

At the juncture of Europay/MasterCard/Visa (EMV) and the mobile sphere, Visa Inc. promoted mobile payments by posting videos online from London during 2012 Summer Olympics. In one video Bill Gajda, Visa's Head of Global Mobile Product, gave a demonstration of a near field communication (NFC), tap-to-pay mobile phone payment on a ViVOtech Inc. terminal in a London business.

Gajda said Visa is working with mobile network operators to introduce secure EMV mobile payments in the United States "later this year." He expects 2013 is "really going to be a growth year for NFC."

Gajda feels NFC transactions are secure because they are "based on well established technology Visa has been using for many years." He also pointed out when a bankcard customer loses a regular wallet, it can take weeks to receive a replacement card, but if a phone is lost, the bank can create a new account "over the air in a matter of minutes."

Thomas Goldsmith, Director of Communications and Public Relations for the Electronic Transactions Association, does not appear to be as enthusiastic about NFC. On Aug. 6, he wrote in the ETA's Daily Scoop blog that he doubts NFC will be ubiquitous any time soon. "Mobile commerce is doing just fine without NFC," he wrote, noting a study showing the game changers in mobile payments are "primarily" the iPad and iPhone from Apple Inc.

"While the big players in the industry are focused on a hardware solution to mobile transactions, software – using bar codes, QR [quick response] codes, web-based apps with e-commerce functionally and other approaches – is leading the way," he said.

Starbucks bets on Square

A new partnership is also of note. Jack Dorsey, co-founder and Chief Executive Officer of mobile payment technology startup Square Inc., and Howard Schultz, CEO of coffee retailer Starbucks Corp., appeared together on a national news program to herald Starbucks' $25 million investment in Square.

Schultz, who is also joining Square's board of directors, said the two companies want to encourage rapid adoption of Square among retailers. The deal calls for Starbucks to build the Square Directory into its apps and in-store Digital Network in 7,000 stores.

In a press release about the deal, Dorsey said it will give Square "new visibility, driving more customers to opt-in to Square." He also said that the large number of Starbucks locations that will soon be accepting Square will create new payers who will "be able to find your business (including coffeehouses) and pay with their name, building community and creating value."

ThreatMetrix warns of new malware

Sophisticated new malware programs are not only difficult to detect, track and contain, but they also have highly specific targets, said Andreas Baumhof, Chief Technology Officer of ThreatMetrix Inc. As a result, the reputation of electronic devices touted as "malware free" is eroding, and the threat to financial institutions (FIs) and mobile devices is growing, he warned.

An Aug. 9, 2012, report released by ThreatMetrix alerted FIs that a new FI-targeted, peer-to-peer Zeus Trojan malware called Gameover is the "largest financial botnet we've ever seen." The company estimated more than 678,000 computers are infected with Gameover, including computers in 14 of the top 20 Fortune 500 companies.

ThreatMetrix said Gameover, a program that hides in computers and tracks keystrokes, including passwords to accounts accessed online, is the work of a single cybercrime organization. The malware is spread through fake emails purportedly from legitimate retailers.

A threat to Apple

Gameover is not the only malicious new program out there. A recent ThreatMetrix report detailed how a new criminal malware called Crisis can disrupt, disable and completely take over Apple Inc. Mac computers and lead to "extensive OS X damage and security breaches for OS X users." The malware steals address book information, uploads and downloads files, accesses full file systems, and snoops on webcams, with little chance of being detected.

Baumhof said Crisis is so well hidden and hard to reverse engineer that it represents "a whole new level of sophistication" in malware programming. "Apple has always been known for its virus immunity, but as technology develops very quickly, cyber crime matches the pace," he said. "This is a big jump from what has been seen in the past, and it should make users think twice about protecting themselves against malware on their OS X devices.

"Now that the Apple iOS is much more used, we've seen more and more malware directed at that operating system." Baumhof believes the Crisis malware may have been developed for another purpose before a cyber gang adapted the program to steal data.

Mobile new criminal target

Baumhof said mobile devices are also under attack from cyber criminals. He noted Apple recently removed an app from the App Store after discovering it contained malicious code. At a recent hackers convention, a demonstration showed how to access files on a smart phone by hacking into the near field communication element.

Baumhof said the security software commonly used to protect mobile devices is often unsuccessful against these new forms of malware. "This is a different platform with mobile devices, so the infection vector is different," he said. "The infection can come through common uses like social media. If I get a message, how do I know the link comes from a person who is really a friend? There's no way to find out."

Baumhof recommends that payment professionals pay close attention to what programs and files are being downloaded to computers because criminals are releasing applications that appear legitimate and work as promised, but still contain well hidden, malicious code. "Only click on links you can authenticate," Baumhof advised.

SellingPrepaid

Prepaid in brief

NEWS

Small biz favors prepaid over payday

A survey of small U.S. businesses said merchants are more likely to fund businesses via prepaid debit cards than with payday loans. **The National Small Business Association**'s *2012 Small Business Access to Capital Survey* said 13 percent of survey respondents were more inclined to use prepaid cards as a funding tool over the last two years, compared to only 1 percent of respondents who were likely to use payday loans in the same time frame.

According to the online survey of 300 small-business NSBA members conducted in May 2012, 27 percent of respondents had changed banks over the last four years, with 38 percent of them citing mistreatment by banks as being the biggest reason businesses switched. This dissatisfaction with banks suggests prepaid card providers have an opportunity to reach small businesses with loan products tied to prepaid cards.

Treasury pushes for Direct Express adoption

The **U.S. Department of the Treasury** said 95 percent of individuals who receive monthly Social Security payments via MasterCard Worldwide-branded Direct Express prepaid cards are satisfied with the service. Additionally, 93 percent of cardholders would recommend the card to others, according to the KRC Research survey commissioned by MasterCard on behalf of the Treasury's Financial Management Service.

The survey was conducted by telephone in June 2012, when 1,211 randomly picked Direct Express cardholders were interviewed. It revealed that over 3 million benefit recipients are using the Direct Express cards, but that approximately 6 million Social Security payments are still distributed on paper checks every month. With the March 1, 2013, deadline approaching when all federal benefits will be paid electronically, the Treasury is working to convince check recipients why they should switch to Direct Express.

$25,000 up for grabs in app challenge

The Center for Financial Services Innovation reported that over 400 entries were received for the **MyMoneyAppUp Challenge**. The challenge, a partnership between the CFSI, the Treasury and the Doorways to Dreams Fund, is a contest designed to discover next-generation mobile applications for the financially underserved in the United States.

The MyMoneyAppUp Challenge was broken up into two parts – IdeaBank and App Design Challenge. IdeaBank, which called for the best app ideas, with winners to receive cash prizes ranging from $250 to $1,000, received 316 entries. The App Design Challenge asked for comprehensive app design proposals and received 98 entries; winners are up for $2,500 to $10,000 in cash awards. The contest officially closed to entrants on Aug. 12, 2012. An awards ceremony will take place in late September in Washington.

ANNOUNCEMENTS

Giftango achieves PCI certification

Digital gifting company **Giftango Corp.** achieved Payment Card Industry (PCI) Data Security Standard (DSS) Level 1 certification. Giftango said the certification reflects the company's commitment to data security.

NetSpend revenues up 15 percent

NetSpend Holdings Inc. reported a strong second quarter 2012, with revenues of $85.3 million, up 15 percent over the $74.4 million it made in the second quarter of 2011. Over that same period, the number of active cards with direct deposit went up 24 percent, to 957,000 as of June 30 with the percentage of active cards with direct deposit up six points to 43 percent.

Skype introduces prepaid calling cards

Online video and phone call provider **Skype** launched prepaid Skype Cards in Mexico. Skype, which is a Microsoft Corp. company, cited the Central Bank of Mexico in saying that a "large majority of the Mexican community" do not have access to credit cards – a main payment option to purchase Skype services online.

PARTNERSHIPS

Triumvirate team for games with gift cards

Gift card exchange operator **Plastic Jungle Inc.** joined with prepaid card distributor **InComm** and its open virtual currency subsidiary **Zeevex** to allow consumers to use gift cards to purchase online games, music, movies and other digital content. The scheme allows online gaming and digital content publishers to translate funds on closed-loop, retailer-specific gift cards into Zeevex currency via Plastic Jungle's interface and network.

PayPower cardholders get direct deposit

Prepaid Resources LLC will offer its automated direct deposit enrollment and management technology, BenefitsDirect, on **Blackhawk Network**'s Visa-branded PayPower prepaid cards. PayPower cardholders will be able to have federal benefit payments directly deposited onto their cards.

U.K. gets first youth ID card

Prepaid card program manager **White Eagle (Europe) PLC** teamed with identification card provider **CitizenCard Ltd.** to deliver to the U.K. market what is being called the first photo ID prepaid card. The Visa Inc.-branded, general purpose, reloadable CitizenCard is designed to provide identity and age verification services for young people who also need an electronic payment card.

ACQUISITIONS

CardSmith enhances card capabilities

Campus card processor **CardSmith** acquired **Vision Database Systems Inc.** to add card production and verification capabilities to its campus card program. As part of the agreement, VDS will become a wholly owned subsidiary of CardSmith and continue operations from Jupiter, Fla.

Chexar completes acquisition

Check guarantee company **Chexar Networks Inc.** completed its acquisition of remote deposit capture (RDC) provider **Clear Payments Inc.** The companies formerly partnered on a mobile RDC solution for the unbanked.

APPOINTMENTS

Ascher joins CardEx

In conjunction with Card Express Inc.'s launch of the MasterCard-branded AIR Virtual Prepaid Code, CardEx appointed **Steven Ascher** as Vice President of Business Development. Ascher formerly managed prepaid initiatives at Alltel Wireless Communications Corp. He will be responsible for managing CardEx's sales and business development activities.

Payza appoints Graham

Payza appointed **Alastair Graham** as Chief Executive Officer. Prior to joining Payza, Graham was founder and director of payment consultancy 5 Grams of Plastic. Graham said Payza has grown over 300 percent in the last three years.

SVS hires Reynolds

Prepaid card processor Ceridian Stored Value Solutions named **Jackie Reynolds** as Business Development Manager for the U.K. and Ireland. Reynolds formerly was National Business Manager at Sodexo Motivation Solutions.

edō taps Smith

Teen rewards card provider edō Interactive appointed **Keith B. Smith** to Executive Vice President and General Manager of Partner Content. Smith, who was Senior Vice President of Sales at Firethorn Holdings LLC, will drive edo's growth strategy in the small and midsize business market.

Features

Good and bad in Green Dot reforecast

One day after Green Dot Corp. warned analysts and investors in its July 26, 2012, conference call about potential threats to its business model, the general purpose reloadable (GPR) prepaid card provider's stock plummeted 60 percent. Green Dot stock, which had been trading in the mid $20-per-share range since March 2012, took a precipitous tumble on July 27 and ended the trading day at under $10 per share.

In the conference call, Green Dot founder and Chief Executive Officer Steve Streit said two main pressures may impact Green Dot's future revenues: increased competition and tighter fraud controls the company instituted.

According to a SeekingAlpha.com transcript of the conference call, Streit said, "We see a greater level of uncertainty going forward in our business as our market and the prepaid industry in general continues to evolve."

Streit expected its retailer partners would start carrying the prepaid card products of Green Dot's competitors, with some retailers making the move in late 2012. He said previous experience showed that when retailers started to sell Green Dot competitors' prepaid cards, the company experienced decreased revenue growth year-over-year via those retailers.

Though Streit pointed out that Green Dot's history in this area is not enough to make an accurate prediction of what will happen, Green Dot wanted to take a cautious approach and disclose how sales might be affected.

Growing pains

Streit said Green Dot tightened fraud controls on its GPR cards in the first and second quarters of 2012. "These new controls are designed to enhance security measures through tighter customer identification protocols and more sophisticated back-end monitoring of accounts," he said.

Streit noted that while the tighter fraud controls increased card security, they also had a negative impact on approval rates; the controls prevented more cardholders from activating the cards after purchasing them or using the cards to make purchases after they had been activated. Streit estimated the tighter fraud controls would reduce Green Dot's growth rate by between 5 and 10 percent.

Streit characterized the reforecast of its financial outlook as Green Dot's reaction to the natural evolution of the industry and the uncertainty that change brings. "Frankly, we don't know how this will all play out, and therefore, we think it's most appropriate to take a conservative view," he said.

In the wake of the reforecast, two law firms filed class-action lawsuits on behalf of Green Dot investors. The firms – the Law Offices of Howard G. Smith and Glancy, Binkow & Goldberg LLP – allege Green Dot violated federal securities laws by offering false and misleading earnings forecasts before the July 26 reforecast.

Silver linings

Ed Lawrence, Director of Auriemma Consulting Group, said the reforecast, while it took a toll on Green Dot's stock, is evidence of larger trends at play. He said more competition is flowing into the prepaid card sector as retail banks eye prepaid cards as a source of revenue to offset losses caused by the Durbin Amendment to the 2010 Dodd-Frank Act, which imposed price caps on debit card interchange.

Many prepaid cards are exempt from Durbin regulation and allow issuers to enjoy "full interchange" revenues, Lawrence said. Additionally, banks with already diverse portfolios can afford to undercut prepaid card providers like Green Dot and Netspend Holdings Inc. on cardholder fees.

Added to the increased competition from banks are the new regulatory burdens Green Dot must face as a bank itself. In late 2011, Green Dot concluded its purchase of Bonneville Bancorp. "Once you become a bank, you're regulated a little differently," Lawrence said, which may account for why Green Dot tightened its fraud controls. The more stringent fraud controls may reduce Green

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Dot's profits over the short term, but reduce overall fraud, which will help the company in the long term, according to Lawrence.

He sees other positive aspects to the reforecast. Streit discussed the deal the company signed with UniRush LLC to be the exclusive issuer (through newly christened Green Dot Bank) of the RushCard. Just as Green Dot is consolidating its own cards under the Green Dot Bank umbrella, it is adding the cards of other providers, Lawrence said.

He stated, "RushCard probably looks at Green Dot and says, 'You know the prepaid business a lot better than other people do, so maybe we're going to move over to you.' To me, those were strategic things [Green Dot] would be looking for when they bought that bank." Instead of Green Dot having to pay bank identification number (BIN) sponsorship fees to other banks to issue its cards, now other card providers are paying BIN fees to Green Dot, Lawrence noted.

Streit also mentioned that Green Dot had entered the higher education market and will facilitate student loan disbursements on prepaid cards. Lawrence said it is a smart move, as it anchors the company in the "youth market," which will help Green Dot develop relationships with younger consumers and, as a bank, offer them other products in the future, such as credit cards, auto loans and even home mortgages.

"You are seeing the early beginnings of them becoming a full-service bank," Lawrence said. "And I think that's positive. So as those things grow and the profits grow, I think you will see a lot more confidence in the market about Green Dot."

Bankers oppose CFPB remittance rule

On Aug. 7, 2012, the Consumer Financial Protection Bureau updated the international remittance (money transfer) rules, despite urging from the financial services industry that the CFPB delay the rules until further study of how they will ultimately affect consumers. Consumer advocacy groups hailed the updated rules as an important consumer protection measure, while bankers' associations said the rules will harm consumers in the long run by reducing the choices they have in sending international remittances.

Under the new rules, money transfer providers must disclose fees, exchange rates and amounts when consumers first request to make transfers and again when payments are made. The CFPB said consumers will also have 30 minutes after money transfers are made to cancel them.

The CFPB will give certain financial service providers "safe harbor" exemption status from the new rules. Community banks, credit unions and financial institutions (FIs) that provide fewer than 100 international money transfers per year will not have to comply with the rules. The CFPB raised the threshold from the original 25 it had initially proposed.

"The bureau concluded that those institutions that consistently conduct 100 or fewer remittance transfers per year do not provide transfers in the 'normal course of business' and therefore are not subject to the new requirements," the CFPB said.

The agency added that should service providers surpass the 100 international remittance threshold in a given calendar year, the CFPB will provide a maximum transition period of six months for organizations to gain compliance with the new rules.

Thresholds and costs

The Americans for Financial Reform, a coalition of trade unions and consumer advocacy groups, lauded the CFPB for rejecting a call by the financial services industry to have a 6,000 transaction threshold imposed, carve out large exemptions for banks and credit unions, and ultimately delay implementation of the rules. The AFR said the 6,000 transaction threshold would have "significantly reduced the reach of consumer protection," as many banks and credit unions would fall under that threshold and be exempt from the rules.

The rules also make money transfer providers responsible for "abuses committed" by their agents, the AFR noted. "[T]hese provisions will make it far easier for consumers to get satisfaction when things go awry," the association added.

In a July 30, 2012, letter addressed to Congress, the American Bankers Association, the Credit Union National Association, the Independent Community Bankers of America, the National Association of Federal Credit Unions and the National Bankers Association said the international remittance rules "impose arbitrary and unworkable requirements on consumer-initiated international transfers of all sizes and purposes that will drastically curtail the availability of international transfers to consumers."

Pat Keefe, Vice President, Communications & Media Outreach at CUNA, said CUNA advised the CFPB that the threshold should be 1,000 transactions per year. Keefe believes most of CUNA's members would fall under that threshold. He doesn't know how many of CUNA's members will eliminate their international remittance services due to the new rules, but he said the cost to member organizations of complying with the rules could force them to drop the service.

The associations' letter said international remittances offered through banks and credit unions are processed primarily over the "open" automated clearing house. "While these networks enable consumers to send funds account-to-account to almost anywhere in the world, they do not enable a financial institution in the U.S. to access the exact exchange rate, third-party fees and foreign taxes required by the final rule," the letter stated.

FIs will have three options, according to the associations. FIs can develop their own closed networks where they would control both the sending and receiving of the remittances. But the associations said creating closed networks could take years. The second option is for FIs to partner with money transfer specialists, such as The Western Union Co. or MoneyGram Inc. The final option is to stop offering international remittances altogether.

"We estimate that thousands of banks, credit unions and broker-dealers will no longer send consumer-initiated international funds transfer because of the final rules," the associations said, adding the result will be that consumers will have fewer lower-cost money transfer options and will have to pay higher fees through money transfer specialists.

Keefe said CUNA members once offered the money transfer services of third-party providers, but they were too expensive for consumers and were subsequently dropped.

Dodd-Frank mandated

Western Union, which operates its own proprietary, closed money transfer network of approximately 500,000 agent locations around the world, said in a statement that it helped educate the rule makers about the money transfer sector and "how transactions work between our company, our agents and our consumers – across all of our business channels and consumer touch points."

The final remittance rule, which takes effect Feb. 7, 2013, updates Regulation E of the Electronic Fund Transfer Act, as mandated by the Dodd-Frank Wall Street Reform Act of 2010, which went into effect October 2011.

"Consumers transfer tens of billions of dollars from the United States to foreign countries each year," the CFPB said. "Prior to the passage of the Dodd-Frank Act, these international money transfers were generally excluded from existing federal consumer protection regulations. To remedy this, the Dodd-Frank Act expanded the scope of the Electronic Fund Transfer Act to provide protections for senders of remittance transfers."

Insider's report on payments

What's still in your wallet?

By Patti Murphy
ProScribes Inc.

Forget cards. Forget checks. If dollars spent were the qualifying factor, cash would win the popularity contest hands down. Prepaid cards and mobile payments may help displace cash from its position of prominence in our wallets, but there's still plenty of cash there, too.

Most U.S. consumers rely on cash – 99.8 percent, according to the Federal Reserve Bank of Boston, which tracks consumer payment trends. U.S. cash in circulation totaled nearly $1 trillion in 2010, according to the Federal Reserve Bank of San Francisco. An analysis by San Francisco Fed economists Jeremy Gerst and Daniel J. Wilson revealed the number of greenbacks in circulation is growing at a rate of 1.7 percent per year and is expected to continue apace throughout the decade.

In 2010, the Federal Reserve Board counted 6 billion prepaid cards with $140 billion in value in Americans' wallets. And according to Geoffrey Gerdes, a Senior Economist at the Fed who follows payments, the value of prepaid loads is growing at an annual rate of 30 percent.

Cash strong in long-term mix

"An empirical analysis indicates that alternative payment technologies have tended to keep cash growth in check, but other factors have more than offset this," Gerst and Wilson wrote in the *FRBSF Economic Letter* in the fall of 2011. They added that the "unique attributes of cash, such as the anonymity it offers payers and its appeal as a backup store of value, mean that currency will likely play an important role in the nation's payment system for some time to come."

By comparison, credit card usage has been falling. A report by Hitachi Consulting and the Bank Administration Institute revealed credit card transactions made up just 19 percent of in-store payments in 2010, down from 22 percent in 1999. Check usage fell from 18 percent of in-store purchases to 5 percent. The number of cash payments fell too, by 13 percent, but at 26 percent of all in-store payments, cash was eclipsed only by debit cards, which represented 42 percent of POS transactions in 2010.

Cash has always been popular for person-to-person (P2P) payments, as well. Shopping at farmers markets and craft fairs, splitting dinner tabs between friends, riding public transportation, transacting with micro merchants and gifting are just some of the obvious scenarios in which cash prevails. Now evidence exists that prepaid cards are displacing cash in many of these situations.

Prepaid as cash replacement

I wondered just how well prepaid cards stand in for cash, so I purchased a prepaid card to use in lieu of cash for a month – replacing the pocket money I take out of the ATM each week. After looking at several options, I settled on the Walmart MoneyCard. My first hint that this may not have been the best choice was the disclosure statement that came with the card. Confronted with pages of barely discernible print, I didn't bother reading it. If I had, perhaps I wouldn't have been as surprised to learn that I had to pay Wal-Mart Stores Inc. $3 for loading cash onto the card at one of its MoneyCenter ATMs.

(I chose to use an ATM rather than wait in a long line for a customer rep. I also could have loaded the card at a checkout, but the cashier didn't know what I was talking about when I mentioned it; I used cash to pay for my purchases that day.)

As I walked away, it seemed counter-intuitive to feed a stack of $20 bills plus $3 into an ATM in return for a piece of plastic that's supposed to take the place of using cash. It also became clear that one reason prepaid cards (the general purpose reloadable cards) are growing at a rapid clip is the meager use of the reload features.

Failure to reload prepaid

In 2010, the Federal Reserve Board counted 6 billion prepaid cards with $140 billion in value in Americans' wallets. And according to Geoffrey Gerdes, a Senior Economist at the Fed who follows payments, the value of prepaid loads is growing at an annual rate of 30 percent. But how much of this activity is simply folks getting a new card rather than reloading an existing card?

A recent discussion paper from the Federal Reserve Bank of Philadelphia shed light on this. *Consumers' Use of Prepaid Cards: A Transaction-Based Analysis* examined adoption by analyzing 280 million transactions using more than 3 million cards issued by the prepaid card company Meta Payment Systems.

Tracking my experiences against the data showed that I

wasn't alone in abandoning my card after spending the first load. The median active life of a reloadable prepaid card purchased from a retail establishment is 63 days, according to the paper. Bank-issued cards remained active the longest, at 515 days.

Fees for retailer-issued cards averaged $7.17, according to the Philadelphia Fed. That is slightly more than what I paid in fees on my MoneyCard for a month. (But then, I also refrained from using ATMs, a big fee generator.)

Here are additional data points regarding retailer-issued prepaid cards from the Philadelphia Fed's research:

- Median number of purchases – 14
- Total value of purchases – $118.90
- Percentage of cards used to make at least one cash withdrawal – 38.7
- Median number of cash withdrawals – 3 (not including POS cash back transactions)
- Total value of loads per card – $217
- Median load amount – $60

So, OK, prepaid cards are a bit cheaper than a bank checking account. But they aren't truly comparable to checking accounts.

Mobile ideal for P2P payments

That's why I believe mobile payments are a better substitute for cash. After all, it's the form factor that makes the most sense, since just about everyone has a mobile phone. And then there's the "cool" factor.

Some of the largest banks in the country are pushing mobile for P2P payments. Retailers are, too, as demonstrated by the recent partnership between Starbucks Coffee Co. and Square Inc.

The Starbucks deal is huge and could well catapult mobile payments into the forefront of our consciousness.

Still, cash is here to stay. And for good reasons. A recent article on the website e27.sg, which follows Asian tech startups, put it well when it asked readers, "Even if organizations, financial institutions and governments are prepared to move into a cashless society, would you, as an individual, start trusting and living in the digital currency?"

I know I wouldn't. What about you?

Patti Murphy is Senior Editor of The Green Sheet *and President of ProScribes Inc. She is also the founder of InsideMicrofinance.com. Email her at* patti@greensheet.com.

New times, new strategies: What are you doing? – Part 3

Following is the third, and final, portion of responses we received from members of The Green Sheet Advisory Board when we asked them the following questions to elicit informed perspectives on strategizing to remain competitive in our ever-changing payments landscape:

1. What new business strategies are payment businesses employing right now?
2. How do you know when the time is right to sell (or buy) a business?
3. How do you evaluate new business models and determine when it is the right time to adopt a new model?

The first two sets of responses were published in *The Green Sheet* on July 23, 2012, and Aug. 13, 2012, in issues 12:07:02 and 12:08:01, respectively. Heartfelt thanks to all who shared their wisdom via these questions.

Allen P. Kopelman

Nationwide Payment Systems Inc.

1. Referrals are more important than ever. Partnering with software vendors is important as merchants are looking for all-in-one solutions to do many things: CRM solutions, POS solutions and more. We are always on the look out for products to help us make a sale or improve existing relationships. Keeping in touch with merchants and offering them additional services. This has always been a part of our business plan, and it keeps working.

2. Three things are happening with merchants:

- Merchants that have capital are growing and they are taking advantage of buying a business or buying or leasing a location at great rates. They are taking advantage of lower prices.

- Other merchants, as leases run out, are closing up locations that are not profitable and cutting losses and putting their efforts into locations that are making money. Also, I have clients who are opening up new locations because they are getting great deals on leases or buying buildings.

- Merchants are developing web portals. Merchants who never sold over the Internet previously are either expanding or working on expanding to the Internet: business-to-business merchants, wholesalers, and retail merchants are getting creative.

3. Sometimes it's hit or miss, or just copying your competition. In our industry you do not want to be too far in front of things. Right now, EMV is coming – but when? Are we ready to start putting EMV-capable equipment out there? Is that equipment going to be usable when the time comes? I have asked that question of a few equipment companies, and I have not been given a good answer yet.

Justin Milmeister

Elite Merchant Solutions

1. Payment companies are employing new strategies at a furious pace compared to just a few years ago. The competition is fiercer than ever, thus pushing margins lower. You have venture capital firms pumping lots of capital into our marketplace to fund companies with low-cost payment processing solutions and technologically advanced alternatives to traditional methods at the POS. Payment processing companies are scrambling to compete in the new age of payment processing. It has been many years since the differentiator between payment companies was whether to offer a free terminal or provide upfront bonuses and other "catchy" items to recruit sales reps.

The last two years, I have seen the most change in our industry in my 10 years in the payment space, and it requires vision and the ability to adjust to the times. Whether developing mobile apps to accept payments or adding value-added services such as text message marketing, the technology employed by payment processing firms is constantly evolving and exciting. Companies are developing their own POS systems/applications so they can control the entire spectrum of the payment process and reduce merchant attrition, as these systems are generally proprietary ... making it very difficult for merchants to switch providers.

2. The right time to sell or buy a business depends on many factors. One should never try to buy or sell strictly on timing. ... Fundamentals should be employed when buying or selling a business, and these include micro and macro factors along with personal goals of the buyer/seller. ... Risk plays a factor in whether a business should be sold or purchased, and that threshold of risk is key in consummating a transaction. Those willing to accept the risk involved in a transaction will be far more likely to close than those who are risk averse. A risk averse person generally will not pay market value as they will be seeking a deal far below market value so their risk is

heavily mitigated. ... A successful transaction is where the buyer thinks they are getting a good deal for the business and the seller thinks they are getting a good price. Nobody knows what is going to happen in the future as the value of the business may rise and fall, but so long as the buyer and seller are happy at the date of the sale, that is what is referred to as a win-win deal. ... [O]nly buy or sell if the transaction makes sense and meets your goals, and at the end of the day, makes you happy. My assumption is there are absolutely no external pressures that are forcing a sale or purchase.

3.New business models should be evaluated constantly, as this is what separates successful businesses from the ones that fail. One can evaluate new business models by utilizing common sense and being a visionary. How many times have you said to yourself, Why didn't I think of that? Warren Buffett employed an investment style that utilized common sense: he only invested in businesses that he understood, were well managed and fundamentally sound. ... He took a lot of heat from his investors and had many critics for not making the staggering returns others were making in the dot-com era; however, he held his ground, and those same investors were thankful he didn't fall prey to the dot-com bubble, as Berkshire Hathaway remained virtually unscathed when the dust cleared.

All business owners at some time are faced with the dilemma of adopting a new business model. A new business model should be adopted when an owner realizes the model that has worked in the past is no longer viable, and the competition is edging ahead. Many companies, big and small, have seen their doors shuttered because they did not administer new models to remain competitive, and their competition did.

Jeffrey Shavitz

Charge Card Systems

As the founder of Charge Card Systems, one of my primary responsibilities is doing my best to understand the future of the payments industry, to take a realistic look at our business model and determine what is needed for our continued growth.

What brings excitement to each day is that our industry is constantly and rapidly changing. Until now, CCS has been able to capitalize on new trends and opportunities and has been able to show significant growth. To continue our growth, we identified technology to be the next frontier of our industry. In this regard, and after years of speaking with potential suitors, we recently were acquired by Financial Transaction Services. FTS is a full-service payment company handling its own risk management, credit, underwriting and is privately held and backed by FTV Capital, a leading growth equity investment firm. The partnership with FTS has provided CCS and its sales partners with the technology it had sought and technology that FTS has invested millions of dollars into developing. As credit card processing becomes more commoditized, it's the players who control the technology and back-end that will ultimately be the winners in the industry. With powerful online portfolio management tools and a leading edge agent center, CCS can now provide its agents, ISOs and merchants with leading-edge technology and information. Without this technology, I felt that the next evolution of our growth would be hurt.

In addition, the other model that I believe is becoming more and more apparent with the small to midsize merchant is offering other bundled services to this customer base – whether its insurance, shipping, payroll, etc. Finally, an area that I believe is beneficial to merchants is "data" – offering analytics and analysis of neighboring merchants; data is king and too many merchants run their businesses by "a feeling" versus having the hard-core data to properly analyze their metric. While the industry is quite competitive, smart ISOs and agents can still offer both tangible and in-tangible services to differentiate their business.

Tom Waters

Bank Associates Merchant Services

1. The e-commerce sector is driven almost entirely by credit card sales. The growth rate in this market is considerably larger than almost every other business type. Business owners are generally more receptive to solicitation because it is generally more difficult to uncover their contact information. Strategic partnerships will be fundamental to the ISO in order to stay afloat in our ever-increasing competitive market. Through technological integration, value-added service packaging, and cross selling partnerships, you will expose your brand to more clients and reduce attrition.

2. A business is ripe for purchase when you consider their existing models for revenue and are able to spot areas, where if properly cultivated, will bring in considerably more return for minimal effort. If you have the resources to make an existing system more efficient, more cost effective or scalable through funding, you can expect good results from your purchase.

3. New business models have to make sense logistically. If you do not understand the new model, do not implement it. If the model makes sense but you recognize threats or weaknesses, make sure you have a reinforcement plan or a back-up plan if your results do not return what you originally expect. If the model is scalable, start immediately with the least expensive participants. This feeler will be your strategic reconnaissance for issues or processes that you may not have expected. Once you have more information about the model, you can build a framework to guide the cavalry that follows your scout.

CompanyProfile

Royal Merchant Holdings LLC

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P.O. Box 331160
Miami, FL 33233
Phone: 855-769-2563
Fax: 248-359-8599
Website: *www.royalmerchantholdings.com*

ISO/MLS benefits:

- Competitive approach to ISO portfolio purchasing
- Four revenue share plans for selling ISOs
- Range of acquisitions – from entire portfolios to single merchant accounts
- Competitive merchant rates through economy of scale
- Value-added products from over 50 software vendors

Flexible portfolio sale options

Founded in 2011 by a group of international investors, Royal Merchant Holdings LLC has moved in a somewhat contrary direction to that of the typical fledgling ISO. ISOs commonly grow slowly and organically, establishing a niche and boarding merchants one-by-one with the long-term view of selling a built-up portfolio.

By comparison, RMH leveraged its financial strength by immediately launching into acquisition mode – buying accounts and processing rights from outside entities, bringing them in-house and linking them with a single processor to produce an immediate economy of scale, according to RMH founder and Chief Executive Officer Nader Panahpour.

"We try to bring in as many portfolios as we can and roll them into one thing," Panahpour said. "We bring them into our business and apply our pricing scheme to keep costs low." He added that portfolio acquisitions continue to be the company's central aim, but the acquisitions made and partnerships forged have also helped lay the groundwork for strong product offerings.

Panahpour stated the company has "several hundred" software vendors, numerous value-added products, including cash advance, gift and loyalty, mobile payment, real-time bookkeeping, and fraud and Payment Card Industry Data Security Standard compliance programs and services. The company also boasts customer service that includes both in-house overseers and ISO managers on the outside who have remained connected to their accounts after a sale

According to Panahpour, the company's service representatives are available 24/7, and the company offers phone support in 15 languages. "We have successfully maintained a close relationship with the owners of portfolios we have purchased and are adequately staffed with seasoned veterans of the industry to maintain the utmost level of customer service, support and competitive leadership in the industry," Panahpour said. He pointed out that the company strives to provide both speedy and close-knit customer service, company executives commonly handle service calls, and partnered agents have the executives' cell phone numbers.

The beginning

The development of RMH has been largely characterized – and dictated – by outside activity. And thus far, it has acquired 1,100 merchants and sees about $11.5 million per month in processing, Panahpour said.

Panahpour was previously a majority shareholder at a telecommunications company and the founder of a real estate investment firm in London. He was drawn to the area of business lending and subsequently became interested in merchant services when some of his associates told him about the growing industry of merchant cash advance. Panahpour said that although cash advance is a product RMH offers, it wasn't precisely what he wanted to do when the concept was presented to him. And upon looking more closely at opportunities in the payments industry, he was enticed by the prospect of portfolio acquisition.

According to Panahpour, RMH's acquisitions run the gamut: from a single merchant account to an ISO's entire portfolio, from small companies to large ones, and from a "a few hundred thousand" dollars in portfolio transaction revenues a month to $6 million.

A sweet deal

Early on, RMH's acquisition activity was punctuated by one major business deal: its purchase of Sterling Payment Technologies, a registered ISO of Merrick Bank. The acquisition helped RMH greatly expand its merchant portfolio and improve its economy of scale, leading to better pricing options for ISOs and their merchants, Panahpour said.

Through Merrick, RMH also partnered with processing giant Total System Services Inc. (TSYS), which now processes payments for essentially all of the company's ISOs. Some RMH merchants also process with First Data Corp., Panahpour said.

That processing arrangement has not only yielded RMH better processing rates, but it has also helped to streamline issues pertaining to service and troubleshooting, as most merchants connect back to a single processing entity, according to Panahpour. "As we acquire more and more accounts, we're able to negotiate better rates with our supplier," Panahpour said. "We benefit from a very good price structure, which is the result of our partnership with TSYS. Our transaction fees and authorization fees are all very competitive.

"We've also got over 50 different software integrations, are up to date on mobile payments and have integrations with the latest payment technologies. If a merchant wants any of that stuff, we're pretty nimble and capable of hooking up with any software POS integration they're looking for."

Tailored approaches

Though RMH has negotiated some major deals, the company values every one of its acquisitions, even the smallest ones, and it determines its approach based on the unique demands of each deal. "It's pretty much done on an ad hoc basis, where we try to get the best deal for the ISO and for our company," said Yoni Schwade, Managing Director of Business Development for RMH.

Depending on an ISO's business and financial picture and how it wishes to proceed with a portfolio sale, RMH has four distinct revenue-sharing plans for ISOs, each one tailored to particular needs.

1. Under the first arrangement, 51 percent of monthly revenue goes to the ISO, and the remaining 49 percent goes to RMH. Under this agreement, the ISO also gets $100 for every new merchant boarded.

2. The second arrangement is a tiered revenue-share program, based on per-merchant profitability. For ISOs whose merchants generate an average of fewer than $200 per month, the sales partner receives 55 percent of the revenue; RMH takes 45 percent. For ISOs whose merchants average between $200 and $500, the ISO receives 60 percent. ISOs whose merchants earn between $500 and $1,000 are entitled to 70 percent. Those whose merchants earn an average profit over $1,000 per month receive an 80/20 split.

3. The third arrangement is simply an upfront payment for merchant level salespeople who want to be paid immediately for their accounts. Rather than accruing an indefinite split, these agents receive a single bulk payment that's 25 times as large as the account's net profitability. In other words, RMH takes the monthly revenue generated by each mer-

chant account sold and multiplies the aggregate by 25. That becomes the upfront payment for those accounts, which are thereby owned exclusively by RHM.

4. The final revenue share agreement is aimed at ISOs whose merchants process large volumes of sales at relatively slim margins, allowing them to base deals on merchant processing volumes instead of revenues. These splits are based on net processing fees – "basis points" – which typically represent 1 percent or 0.50 percent of the total processing volume.

   ISOs with merchants processing an aggregate of $500,000 receive 51 percent of the net processing fees (For example, the net fees on $500,000 of processing might be one percent, or $5,000. The ISO would get 51 percent of that, or a little over $2,500.) Those processing between $500,000 and $1.5 million receive a 55/45 split. Those processing totals between $1.5 million and $2.5 million receive a 65/35 split, and ISOs with over $2.5 million in processing get 70 percent of the net fees generated.

   (This information was current as of press time, but as with any type of financial dealings, the terms for new acquisitions could evolve over time.)

"Some agents like the percentage to be based on overall processing volume because the net revenue of a high volume could be a very low margin, where even a small percent of that total volume … ends up being more money," Panahpour said.

He added that, by comparison, ISOs generating a smaller processing volume but earning a higher margin on their merchant accounts will likely opt for the first or third of the options RMH offers.

Growth spurred by sales

Of course, not every ISO owner wants to sell his or her entire business. According to Panahpour, some sell only a portion of their accounts as a way to expand. They use the capital yielded for things like hiring, marketing and equipment upgrades. Eventually, such ISOs commonly end up with more accounts than they had before the sale, Panahpour noted.

"There are two ISOs we're dealing with right now; both will probably sell about 15 percent of their volume," he said. "With that money, they can work on their marketing push to generate lots of accounts going forward, and he'll write those on an 80/20 split [with us]. ... Hopefully, going forward, those new accounts become profitable, and he can sell those as well."

call to Washington from page 1

associations and Senator Durbin himself have said publicly that credit is next and that they want to find ways to rein in the cost of credit interchange," she said.

According to Bennett and other payments industry professionals interviewed by *The Green Sheet*, the political agenda in Washington demands ongoing vigilance and input from the industry to inform the decisions that will impact payment structures of the future.

Educating lawmakers

Larger corporations often have the resources to hire their own lobbyists, but small to midsize businesses must rely on trade associations to represent the collective voice of similarly sized constituent bases. Serving as front-line educators, industry groups are frequently invited to participate in hearings and committee meetings on topics when outside expertise is needed. Today, mobile payment and cyber-security legislation share the stage in Washington.

"We are already working with several government agencies in their exploration of mobile payments," Bennett noted. "In a very positive way, we are engaged with the Department of Commerce, The Treasury Department, Congress – in the House and Senate.

"They are all undergoing exploratory hearings and meetings to understand mobile and to understand who in the existing regulatory regime would have responsibility for overseeing them. I believe we're on the leading edge with this." To support the process, the ETA recently formed the Mobile Payments Committee to develop industrywide policy and business solutions.

Another industry group, the Smart Card Alliance, made its debut appearance on Capitol Hill in March 2012. It was at a House Committee on Financial Services subcommittee hearing titled *The Future of Money: How Mobile Payments Could Change Financial Services*. SCA Executive Director Randy Vanderhoof said the hearing provided an opportunity to extend the alliance's reach to lawmakers and address questions critical to understanding mobile payments.

"We're in the best position to provide the knowledge that the regulatory agencies or the congressional hearing bodies need to have so that they feel informed and are positioned properly to address any shortcomings that might happen," Vanderhoof said. The SCA has also dovetailed with registered lobbying organizations, such as the Secure ID Coalition, providing resources to support coalition positions in the legislative review process.

Vanderhoof, who has since participated in subsequent mobile committee meetings, stated, "I would suggest that it's still very early in the game for government regulation to step in and start to make its presence known until there is enough activity in the market and that there is any evidence that the market is heading in a direction that is going to be harmful to consumers."

Will Graylin, Chief Executive Officer of ROAM Data Inc. and a member of the ETA Advisory Council, concurred. "There is still a big gap between actively looking at what's happening in the mobile payments industry to actual actions," he said. "You can tell that there is momentum there, but the attendance, by the number of senators, is very sparse." Nonetheless, Graylin believes now is the time for the payments industry to be heard in Washington on the subject of mobile payments.

Graylin also discussed the importance of data security. "I see smaller holes trying to be patched up with large efforts, such as EMV [Europay/MasterCard/Visa], and larger holes with no good answers, such as card-not-present fraud," he said.

He added that the recent rise in unaccounted for fraud, largely due to mobile card skimming, is an alarming trend. He feels it could be remedied by leveraging mobile phones as authentication mechanisms and by implementing stricter monitoring of mobile card readers.

Bennett views the proposed national cyber-security legislation as having two possible approaches: one government mandated, the other managed by private industry. She also noted that financial system data security is less pressing to lawmakers than other areas of concern (for example, the electricity grid and water delivery systems) because the financial system has done more to secure its infrastructure than other vital sectors have done.

"The national standard for breach notification is a tiny piece of those bills, but it's one that has a lot of support, and we'd like to see included in the final vehicle," she said.

Groups as change influencers

The ETA represents the merchant acquiring side of electronic payments, but other organizations play equally vital roles in different segments of the financial services ecosystem. For example, the American Bankers Association and the Consumer Bankers Association represent card issuing banks of all sizes.

Community bankers in small, independent and regional banks turn to the Independent Community Bankers Association, and the Electronic Payments Coalition promotes the economic growth of its credit union, community bank and payment card network members.

Regardless of group affiliation, Bennett has found that ISOs and merchant level salespeople (MLSs) generally wield the most influence at the committee level or when volunteering to speak to lawmakers about industry-related matters. "It's always more valuable for government officials to hear from businesspeople themselves than from me," Bennett said. "My job is to help facilitate meetings and to get the right people involved."

TransFirst LLC President of Financial Institutions Marla Knutson chairs the ETA Government Relations Committee alongside co-chair Victoria Strayer, Senior Director of Enterprise Business Compliance for Total System Services Inc.

Working with financial institution clients across the nation, Knutson must continually follow legislative activity, not only at the federal level, but in all 50 states. The aggressive overhaul of financial regulation in recent years was a call to action for her. "I think that government legislation and regulation are heavily impacting the financial industry today, some of it needed and some of it not needed," she said.

ETA Government Relations Committee members recently met with the Consumer Financial Protection Bureau and the Federal Trade Commission. "Our goal in working with a lot of these government entities is to let them, first of all, know who we are," Knutson said. "Secondly, to let them know that we are an organization that they can reach out to when they are making decisions and setting policies."

As a compliance expert, Strayer said, "I actually love the dynamics that are occurring between the industry, the regulatory bodies, what's happening in Congress, and how we can make sure that we're helping and protecting not just the big guys, but the consumers and the mom-and-pops.

"We all have a responsibility to be a voice. The meetings that we had with the CFPB and the FTC were incredibly successful, but that would be a one-time success if we don't build on it."

For Strayer, active participation in trade organizations effectively harnesses the collective message. "Instead of trying to get 500 companies to the Hill to have meetings, we can be that voice for them and recognize where the gaps are, and serve as a conduit between the regulatory bodies or the staffers on the Hill and the large constituency that somebody like ETA represents," she said. "Many times our end goal is very similar."

However, Strayer is quick to point out that Congress is politically driven, and lawmakers react most to issues of importance to their constituents. Frequent government staff turnover and rapid changes occurring in the payments sphere mean the dialog must continue, which keeps the door open for more payment professionals to become involved, she noted.

"We need to be sure we're part of that conversation so that we can ensure they're understanding the value from a merchant perspective, from the players in between that are so important to actually delivering a safe and robust solution to the consumer at the point of sale that the consumer understands," Strayer said. "That's what we all want, a happy consumer that is participating in electronic commerce."

Power of one

According to data from GovTrack – a privately managed website that tracks lawmakers' voting records, committee actions, federal bills and resolutions, and individual state legislation – 11,553 bills and resolutions were before Congress just before this publication went to press. Of that number, roughly 5 percent were expected to become law before the 112th Congress concludes its final session.

GovTrack users can sign up to receive free status updates on legislation relevant to their business interests. "As an everyday small mom-and-pop merchant or consumer, I can now download this GovTrack app onto my iPad and sign up for things that are important to me, and I can get updates on those very specific things," Strayer said.

Another resource for tracking the status of federal legislation is the Thomas website run by the Library of Congress. Though considered to be less user-friendly than GovTrack, the House voted unanimously in June 2012 to create a task force to study the effectiveness of converting the website to a faster format.

MLSs can also participate when regulatory bodies seek public comments before making policy decisions. Strayer said a recent example was the CFPB call for comments regarding extension of Regulation E to include general purpose prepaid cards. The ETA also periodically sends political action alerts to members who sign up to receive them.

The final piece of advice from Bennett is to start at home by getting to know local members of Congress, which begins with a visit to their websites and "liking" them on Facebook. "They will track you, and you'll be on their mailing list," she said. "If you send a one sentence email to them, they track it. They count it, and they keep track."

Bennett also recommends attending town hall meetings and fund-raising events orchestrated by district representatives. She suggested that in face-to-face encounters, MLSs could say something like, "I am Sue Smith and I work at XYZ Company and I live in your district. The Durbin Amendment has been very bad for my business, and I don't want to see anything like that happen again." Bennett believes efforts like this will have an impact because opinions expressed by voters resonate strongly with lawmakers.

So, send an email, make a phone call, pay a visit to the lawmakers elected to represent you. In short, make noise. No one can represent your interests better than you can.


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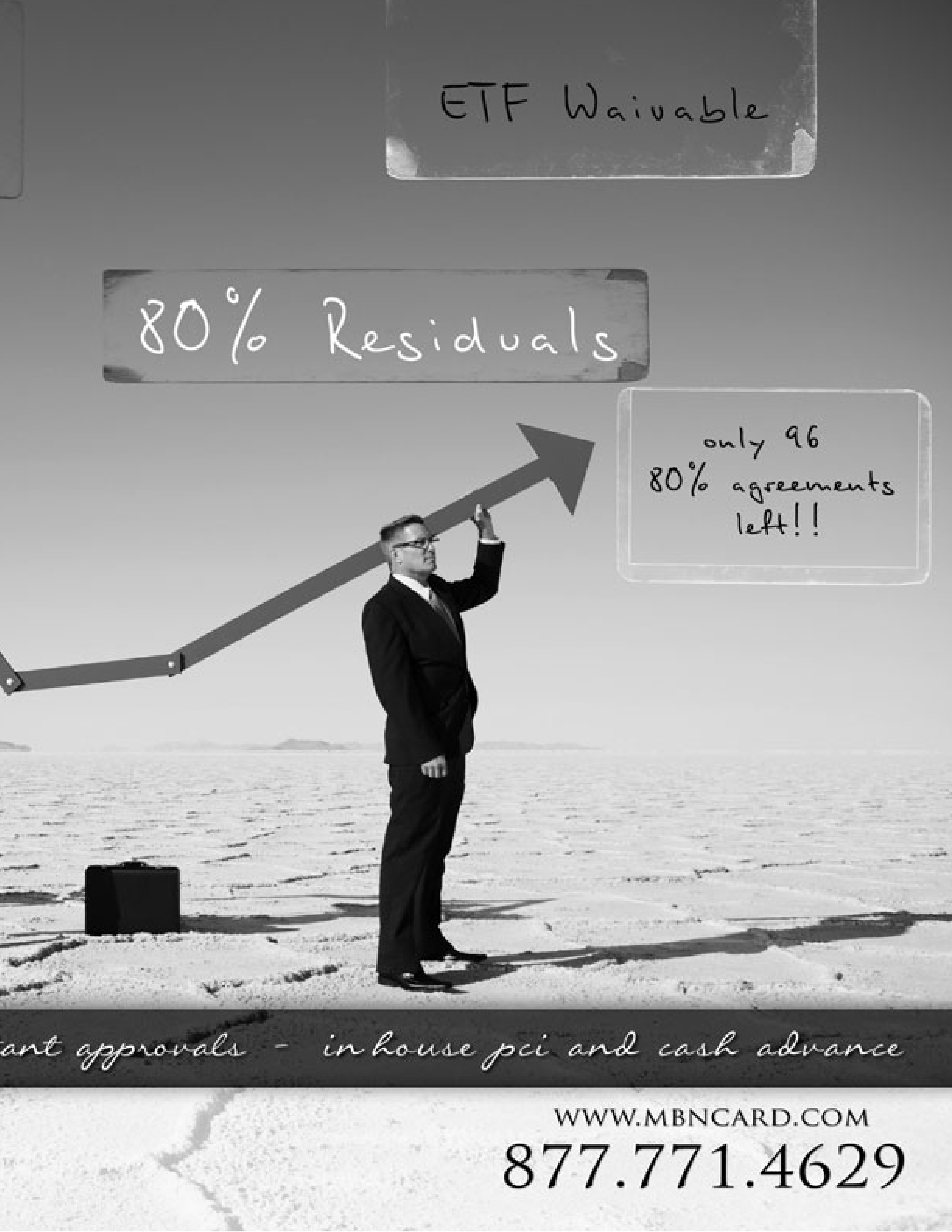
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Stocking your MLS toolbox

By Jeff Fortney
Clearent LLC

In the summer before my 16th birthday, my father thought it was best that I learn to drive in the car I would be driving every day, so he brought home a 1962 Corvair station wagon. It had been reconditioned by my uncle, who had pulled it out of the San Joaquin Delta.

Corvairs were Chevrolet's rear-engine offering. A trunk was in front where the engine normally is, and the engine was in the back. This was the car upon which Ralph Nader's book *Unsafe at Any Speed* was based.

My Corvair had a hole in the floor where my uncle had drained the Delta water. In winter, cold air blew in quicker than the heater could work. The doors would shake violently if I approached 50 miles per hour. It also had a distinct oil smell, as it leaked a pint of oil a week.

My dad wanted to make sure I was equipped should a problem arise. So he put together my first tool kit. In it he put flares, two screwdrivers, a hammer and a roll of duct tape. For you see, his favorite statement was, "You can fix everything with two screwdrivers, a hammer and duct tape."

He was a mechanic by trade and had a shed full of tools, each of which had a unique specialty. But he truly believed these three common tools and duct tape were all you needed. He had three toolboxes; each contained a roll of duct tape which he used on everything from leaky pipes to roof leaks. One of his retirement gifts was a 12-inch roll of duct tape. In the card was written, "Some have said, give a man a lever, he can rule the world. You have proven all you need is duct tape."

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Each salesperson also needs a well-stocked toolbox. It may not consist of physical tools, but it does hold what we need to be successful. The challenge is that it's easy for a toolbox to become so large that it hinders a sale rather than helps it. Whether you are new to the industry or a seasoned veteran, you need to determine the most appropriate items for your toolbox. To do so, ask these four questions:

- What do you need to be successful?
- Which tools would you use most often?
- What specialized tool would you use the least?
- What is your "duct tape"?

As with any toolbox, available space is finite. A skilled mechanic organizes the box in a fashion that gives fast access to the tools that are used daily; it also finds a place for those that are not used as often but are still necessary. It helps me to think of the various sections of a toolbox as these categories: product knowledge, communication skills, confidence and time management.

Product knowledge

Successful salespeople must understand the products they sell. Our sales are primarily service related, so we

Sometimes too much knowledge about a product is like the mechanic with the overflowing toolbox. It can lead to paralysis by analysis.

must have a general knowledge about the service, its functions and its costs.

For ISOs and merchant level salespeople (MLSs), this means having a working knowledge of interchange, dues and assessments. For fellow GS Online MLS Forum member **NCRUM**, this knowledge is his duct tape. "My best tool is pricing clients on interchange plus, and then providing 'interchange management,'" he wrote. "I have been able to increase my profitability significantly doing this and at the same time reduce the merchant's costs.

It becomes my job to be the merchant's advocate and take money from the card issuing bank and deliver it back to the merchant's bottom line by helping them reduce downgraded transactions and their interchange and processing costs."

I need to mention an important caveat. Sometimes too much knowledge about a product is like the mechanic with the overflowing toolbox. It can lead to paralysis by analysis. It is not necessary to have a complete knowledge of interchange to be successful. However, it is necessary to have a basic foundation and access to someone who can give you answers to specific technical questions when they arise.

If you are primarily selling an ancillary product such as check services, loyalty or other products of this type, the need for product knowledge still applies, as does the caveat. No matter what you are selling, you must understand the product, its basic functions and its intended use. Sometimes just having a basic understanding of how an ancillary service is used can make the difference between a sold deal and a lost deal.

MBRUNO stated that his duct tape is his "knowledge of technology, the ability to learn new technology quickly and to think outside of the box to use existing tools in unique ways other than their original intent. These tools and abilities have helped me land merchants or partners I wouldn't have been able to if I took things at face value."

NCRUM added that ancillary products are also an important part of product knowledge. He makes "sure merchants have the correct solution to process credit cards and then offers them ancillary products that can help them grow or become more efficient."

When examining this section of your toolbox, be honest; seek the general knowledge you feel you are lacking. This is where a trusted adviser could help you fill in the gaps.

Communication skills

Hundreds – if not thousands – of sales training programs are offered today. They teach a variety of techniques and sometimes have a completely different sales philosophy than what we may have learned in the past. All of these programs have value. However, their value may be limited by what is sold and to whom.

In our industry, we sell to businesses, not consumers, yet business-to-business sales training doesn't always apply. We sell a service, but it can appear to be a commodity. These dichotomies can lead to confusion in both the salesperson and the buyer.

Sometimes the most important sales skill is not what you do, but what your merchant does. "Listening skills, in my opinion, are the most important tools any salesperson could have," said **JMATHIS** said. "Being able to read people is also important."

Listening is not just hearing what the merchant said. You must also recognize and understand the merchant's needs. Shut off all distractions and focus solely on the needs. **BIGRED_DAVE** put it this way: "My most valuable tool is my genuine desire to listen to my customers' wants and do my best to deliver that." Listening and understanding are **BIGRED_DAVE**'s duct tape.

LADERA BUSINESS SOLUTIONS took it a step further. "My greatest tool is my ability to speak and listen to customers or potential clients without fear," **LADERA** posted. "Being able to speak to one person or a large group in a relaxed, calm, confident tone is a skill that I am very proud of."

Adapt your sales skills to fit your market. Don't hesitate to provide a solution to a problem, but before jumping to that solution, make sure you listen closely. Those that do are more successful, as they are addressing a real need.

Confidence

An old sales adage says people buy from people they know and trust. Most will agree that trust is earned. It starts with a salesperson trusting himself or herself.

To be successful, you must have confidence in yourself and your abilities. Many believe confidence is their most important tool. **1SLICK67** said, "My best tool is selling

Arrogance is defined as a refusal to admit a lack of knowledge or an error. Arrogance is external; confidence is internal. Arrogance is when salespeople act in ways that convey they think they are superior to merchants.

myself as the solution to whatever the merchant needs. … I let the merchant know that I do not have all of the answers, but I know how to find them quickly. I don't pull any punches. I work with the merchant to build a trust factor and then ask for his business."

Arrogance is defined as a refusal to admit a lack of knowledge or an error. Arrogance is external; confidence is internal. Arrogance is when salespeople act in ways that convey they think they are superior to merchants. If left unchecked, it can cost you sales.

CCGUY said his "best sales tool is me." **STEVE NORELL** added, "My best tool is my attitude. I believe that I am better than all of my competitors put together, and I can out sell everyone and anyone regardless of what they offer." Both statements reflect confidence, not arrogance.

Some define confidence as honesty. Be honest with yourself and those around you. Honesty drives trust, and trust drives sales. Remember, confidence stems from being able to admit you don't have all the answers, but you know where to find them.

Time management

Another key tool for your toolbox is a system to measure your time. Some refer to it as a call log or tracking log; others may call it a goal sheet or plan sheet. Whatever the name, the purpose is the same: to monitor your efforts and keep you on track.

Remember, time is finite. Unlike duct tape, once it's been used you can't buy more. Savvy salespeople know that to be successful they must use sales time for sales-related activities only. They dedicate that time to selling and can measure its success.

An MLS's toolbox may have other items, but these are like the specialized tools mentioned before. They only see the light of day when a specific need arises.

Each MLS will find his or her own duct tape, that one tool to use every time with every merchant. It's what makes you unique and what convinces merchants you have the best solution. Perhaps it's your ability to empathize, or your ability to quickly find the solution to a merchant's problems. It could also be that you listen, or that you understand the merchant.

As my father said, even with all the tools in the world, a hammer, two screwdrivers and duct tape may be all you need.

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HARBORTOUCH

The long tail of the Durbin Amendment

By Marc Abbey, Chris Sanson and Casey Merolla
First Annapolis Consulting

Interchange regulation has been somewhat of a hot topic in the payments industry of late. The Durbin Amendment to the 2010 Dodd-Frank Act made its initial impact in late 2011, limiting the interchange some issuers are able to receive for debit transactions.

More recently, the announcement in July that Visa Inc. and MasterCard Worldwide have reached a settlement with a class of retailers may create another temporary interchange reduction event, not unlike the 2004 "Wal-Mart" settlement involving debit interchange. While the basic impacts for issuers and merchants are clear, subtle factors, specifically related to the Durbin Amendment, could impact acquirers for years to come.

One of the key components of the Durbin Amendment is the small issuer exemption, which limits the interchange caps to financial institutions with $10 billion or more in assets.

Under the Durbin regulations, the Fed uses an annual test of assets to determine exempt or nonexempt status, that is, whether the bank is above or below $10 billion and whether the interchange caps apply to the bank.

From exempt to nonexempt status

If an issuer no longer qualifies for the small issuer exemption at the end of a calendar year, the newly regulated issuer must begin complying with the various elements of the Durbin Amendment, including interchange caps, no later than July 1 of the following year.

In the case of an acquisition of an exempt bank by a nonexempt bank, the Fed recommends that the nonexempt issuer comply with the interchange fee standards as soon as reasonably practicable, but generally no later than 30 days after the date of acquisition.

The list of regulated institutions is not static and will fluctuate year to year based on organic growth or contraction and acquisition activity. For example, four banks crossed the $10 billion threshold from exempt to nonexempt status in the fourth quarter of 2011 and first quarter of 2012 and became (or will become, at the end of the calendar year) regulated entities.

Two of these banks crossed the threshold organically, while the other two passed the $10 billion limit due to acquisitions (though both were so close to the limit prior to their acquisitions that they may have crossed organically anyway).

Ignoring mergers and acquisitions, eight banks will cross the threshold in the coming eight quarters if the banks maintain their current rates of growth. Another 11 banks are so close to the threshold, that simply higher rates of growth corresponding to macro-economic recovery and a healthier environment could push them over the threshold into nonexempt status in the coming quarters.

Collectively, all the institutions just mentioned represented nearly $215 billion in assets as of the end of the first quarter 2012. To put that in perspective, these banks are analogous to a portfolio the size of Capital One Corp., the 13th largest bank in the United States.

Additionally, given the rate of combination between community and regional banks, institutions will certainly cross the threshold by virtue of their merger and acquisition strategies. Over the past year, 11 banks with less than $10 billion in assets (representing $6 billion in total assets) were purchased by banks that were already over the $10 billion Durbin threshold and were therefore already nonexempt by today's standards.

As mentioned earlier, over the same time, two banks representing $24 billion in post-closing assets came to have assets greater than $10 billion by virtue of an acquisition.

Therefore, if these rates of combination were to continue, over the next two years, approximately 25 banks representing $60 billion in assets would migrate from exempt to nonexempt status, in addition to the 23 banks with $215 billion in assets described above and likely to migrate due to organic growth.

There may very well be offsets, too, although it appears much more likely banks will cross above the $10 billion threshold due to positive growth than the converse. There were no instances of banks crossing from above the $10 billion threshold to below it in either the fourth quarter of 2011 or the first quarter of 2012, though this has occurred in the past.

In addition, there are three banks with assets totaling $34 billion that will back down under the threshold if they continue their current, negative rates of growth over the next two years. In April, Visa revealed a revised interchange schedule, which reduces rates on several categories of exempt issuer signature debit interchange, which we estimate will reduce Visa signature debit interchange by about $0.04 to $0.05 per transaction, on average.

Even with this reduction in exempt interchange rates, a differential of over $0.20 per transaction on average still

Banks differ substantially from one another in terms of the degree to which they are consumer-oriented and their level of aggressiveness with debit card issuing. But as a general statement, becoming a nonexempt financial institution tears a hole in a bank's payment revenue due to the lower interchange rates the bank can earn on its debit products.

exists between the interchange rates of exempt and nonexempt debit issuers.

Good for acquirers, not for banks

All of this serves to illustrate the long tail of the impact interchange regulation will continue to have on the market. Quarter by quarter, banks will grow to exceed the asset limits set by the Durbin Amendment.

As they do, and so long as a pronounced gap between the interchange rates for regulated and nonregulated debit transactions still exists, a portion of their interchange revenue will be redistributed across the payment value chain.

Banks differ substantially from one another in terms of the degree to which they are consumer-oriented and their level of aggressiveness with debit card issuing. But as a general statement, becoming a nonexempt financial institution tears a hole in a bank's payment revenue due to the lower interchange rates the bank can earn on its debit products.

By making some general assumptions about likely debit purchase volumes based on asset size, the interchange reduction for the roughly 50 banks that have crossed or could cross the Durbin threshold in the next two years approaches $100 million in aggregate.

This is about a basis point on industry volume or 1 to 2 percent of acquiring industry revenue, as a frame of reference. Some of these funds will be passed on to merchants, and much, at least temporarily, acquirers will retain.

Debit interchange in this context is a zero sum game, and the reduction in interchange revenue to these banks accrues to the benefit of merchants or acquirers. This phenomenon illustrates the difficulty for acquirers to forecast their interchange expenses and to be precise in their pricing in bundled pricing structures.

Other things being equal, acquirers should experience a general decline in interchange rates due to banks becoming nonexempt. Acquirers differed substantially in terms of how they reacted to the Durbin Amendment and how much of the reduced interchange they passed through to merchants, and likewise, the margin improvements suggested by this phenomenon will accrue unevenly across acquirers.

Additionally, as merchants churn from one acquirer to another over time, their pricing will likely be marked to market, losing any exceptional margin on debit transactions. Nevertheless and despite the heartburn this migration will cause impacted regional banks, acquirers will continue to face a modest tailwind and improved margins from the long tail of the Durbin Amendment for some time to come.

Marc Abbey is Managing Partner of First Annapolis and responsible for its Acquiring Practice, Casey Merolla is a Senior Manager in the Deposit Access Practice, and Chris Sanson is a Senior Analyst in the Acquiring Practice. They can be reached, respectively, at marc.abbey@firstannapolis.com, casey.merolla@firstannapolis.com *and* chris.sanson@firstannapolis.com.

Micro attacks: Fraud of the future

By Nicholas P. Cucci
Network Merchants Inc.

We all remember the data breach at Michaels Stores Inc. in 2011. POS and PIN-entry devices were compromised at 84 locations in over 20 states. These devices were swapped out with corrupt devices that were manipulated to collect payment card numbers and PINs. More than 94,000 cards have been affected thus far.

In June 2012, a U.S. District Court judge in California sentenced the perpetrators of the Michaels breach to multiyear prison terms on charges of conspiracy, bank fraud and identity theft, and ordered them to pay restitution. The breach has been one of the largest-scale reported POS breaches. Michaels used standard POS equipment used by most large companies back then.

Small attacks looming large

A recent trend noted by Gartner Inc. Vice President and Distinguished Analyst Avivah Litan is the localized, smaller-scale breach. She wrote in a July 12, 2012, blog post that such breaches can stay "under the radar longer." She also coined the phrase "micro attack" to describe a breach at restaurant Puerta Grande in Winchester, Ky., in June.

Litan noted that fraudsters may have gained remote access to the restaurant's POS system, reportedly enabling them to steal mag stripe data and create counterfeit cards. Soon after, Winchester community banks saw an increase in card fraud. Authorities estimated that 100 accounts had been compromised, a serious hit for small-town banks.

Small businesses are more susceptible to micro attacks, depending on the POS device or system model. Merchants are making this easy for fraudsters by failing to change default passwords installed by manufacturers. These micro attacks may seem small, but the frequency is increasing. According to the U.S. Department of Justice, over $5.5 billion in credit card fraud has already occurred worldwide in 2012, and one in 10 Americans have fallen victim to card fraud.

Preference for fresh data

In another example of a micro-attack, federal authorities arrested Los Angeles-based rapper Charles Tony Williamson, better known as Guerilla Black, in July for conspiring to buy credit card data from two hackers also under indictment. According to Williamson's indictment, he expressed an interest in buying card data that was freshly stolen from POS systems.

> **At the heart of the underground economy is the selling of stolen data. From bankcard numbers to account credentials, every piece of information has a price and is subject to the laws of supply and demand.**

The hackers' allegedly stole data for thousands of bankcards by targeting restaurant POS devices near Seattle. This group was charged with access device fraud, bank fraud and aggravated identity theft.

At the heart of the underground economy is the selling of stolen data. From bankcard numbers to account credentials, every piece of information has a price and is subject to the laws of supply and demand. The supply is growing with the increase in demand overseas for stolen data. For example, credit cards have a different price based on their countries of origin and card brand and type. Visa Inc.'s Visa Platinum cards go for more than Visa Classic cards. Often, card details are sold in batches containing multiple cards, all at relatively low prices.

Five-star card data

Similar to legitimate online retailers, sellers of black-market data frequently receive ratings on the quality of their data. Also, many perpetrators know each other's reputations and where to go for certain types of information. These transactions take place in online Internet Relay Chat rooms. Fraudsters have preferred servers for chatting and exchanging data. However, these busts by the FBI are proving to fraudsters they can no longer hide behind computers. They can still be found and prosecuted.

What merchants and ISOs need to do is obvious. It's time to for us to educate ourselves on the various attacks that can happen to our merchants and their devices. If all ISOs explained to their merchants while signing them up that passwords need to be changed on devices and wireless Internet systems need to adhere to Wi-Fi Protected Access (WPA) or WPA2, we would drastically cut back on fraud, which becomes another barrier to entry.

Nicholas Cucci is the Director of Marketing for Network Merchants Inc., a graduate of Benedictine University and a licensed Certified Fraud Examiner. Cucci is also a member of the Advisory Board and Anti-Fraud Technology Committee for the Association of Certified Fraud Examiners. NMI builds e-commerce payment gateways for companies that want to process transactions online in real time anywhere in the world. Contact him at ncucci@nmi.com.

Countdown to TIN deadline: Are you ready?

By Jacob Young
SecurityMetrics

Less than five months remain for acquirers to completely validate their merchant portfolio tax identification numbers (TINs) and legal business names with the Internal Revenue Service.

Virtually all acquirers I've spoken with are acquainted with TIN requirements and wary of the 28 percent withholding rate that penalizes merchants with mismatched or incorrect TINs. Despite industry awareness, multiple remaining concerns may develop into an industrywide hailstorm as the deadline approaches.

Assessing the industry

I believe the industry thinks it's prepared. Yet some acquirers are ignoring critical facts about their own TIN-matching progress. At the 2012 Electronic Transactions Association Annual Meeting and Expo, many acquirers remarked that they still would not be ready for the Jan. 1, 2013, penalty deadline, even after an extension of the 2012 deadline. Some acquirers disclosed they do not believe their current in-house TIN programs will meet their business needs.

As I contemplate industry progress over the past year, I reluctantly agree. Compared with 2011 TIN matching data, the average portfolio has reduced mismatched TINs by only 10 to 15 percent. At this rate, if 20 to 25 percent of an acquirer's portfolio is still mismatched in August, gathering and validating the remaining TINs in five months will be nearly impossible without a drastic program change.

Spotting trends

Three main trends are prevalent in the average acquirer's IRS TIN validation process across the United States:

1. A significant number (20 to 30 percent) of mismatched merchants remain among midsize to large legacy portfolios. In contrast, smaller acquirers have matched roughly 90 to 95 percent of their portfolios' TINs, possibly because of personalized and cultivated merchant/acquirer relationships.

2. In-house acquirer TIN programs are failing. Many acquirers developed in-house solutions to tackle the TIN-matching mandate last year, but they are slowly discovering their programs cannot succeed by the deadline. Some are proactively searching for alternate solutions to implement before the end of the year. A majority will not realize until late September or October that their solutions will not give them the results they need and will scramble for quick fixes.

3. Hard-to-reach merchants remain problematic. Although most acquirers have reached the IRS' minimum "good-faith effort" to contact all merchants about TIN requirements at least three times, acquirers want to steer clear of possible attrition following the 28 percent withholding penalty rate.

Generating responses

Acquirers may be unable to elicit the desired merchant response because they don't have the correct tools. Merchants tend to be unresponsive when it comes to reporting for any type of mandatory compliance. It takes multiple solicitations to get a response, which may come from setting an arbitrary due date or issuing a bank policy.

Typical acquirer-to-merchant communication includes direct mail or a statement message. Typical merchant fluctuation or a change in phone number, fax, or email may make communication difficult for acquirers that don't devote resources to obtaining extra contact information.

Acquirers need alternative techniques to help these merchants respond. For example, an unresponsive merchant, traveling business owner, or manager who doesn't visit his or her store very often may never receive or respond to direct mail communication. Alternative methods of communication such as fax, email and phone help acquirers connect with merchant outliers. It helps to have a skilled team of verification researchers search for and update all contact information to ensure acquirer communications will not be lost or neglected.

Revalidating every year

An estimated 30 percent of merchants require revalidation every year, based on merchant churn between processors, name changes or changes in ownership. Such activities contribute to the inaccurate, incorrect, mismatched or missing TINs among acquiring banks. However, a large portion of the 30 percent is the churn of merchants switching processors.

Acquirers industrywide have expressed concern about the churn from attrition. Currently, when acquirers board new merchants, they can't immediately validate gathered merchant information against IRS records. The IRS takes a minimum of 48 hours to get back with answers. That two-day lapse, in addition to follow-up communications to merchants, presents a problem for acquirers wishing to land such accounts as quickly as possible while gathering correct information.

Grabbing churn by the horns

One solution is to use underwriting tools designed to instantly validate TINs as acquirers board or submit changes to merchant accounts. Using an on-the-spot TIN tool rids a portfolio of most of the 30 percent yearly churn, leaving the unavoidable 5 to 10 percent of merchants who change from limited liability companies to corporations, change their names, acquire other companies, issue stock to new investors or change business ownership. Many acquirers are looking to on-the-spot TIN-matching tools to help them trickle in the rest of their merchant portfolios.

Acquirers and ISOs have a sustained responsibility to obtain correct TIN information and legal business names for each merchant. My TIN advice? Start now and stay on top of it.

Jacob Young, "The TIN Man," is Director of Business Development at SecurityMetrics, a compliance and merchant data security solutions company designed to help both merchants and acquirers decrease their liability while increasing security. Jacob can be reached at jyoung@securitymetrics *or 801-995-6340.*


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Pay-at-the-table systems pay for themselves

By Rick Berry
ABC Mobile Pay Inc.

If you were the owner of a small to midsize eatery that's either a quick service restaurant or a casual dining establishment, you might have thought about implementing a pay-at-the-table solution. But chances are, you wouldn't have done it. Why? For starters, such systems can be expensive. Traditionally, each license per register costs $1,500 to $5,000. And that's just the license.

A pay-at-the-table system also necessitates the purchase of additional equipment. Tack on to that the monthly support cost of $200 to $500 per register and the expense of employee training. Even if you were a merchant flirting with the notion, it would likely go the way of many good ideas that are just too expensive to implement.

And that's why 95 percent of small business owners do not have the type of POS systems found at large department stores and grocery stores. They are just too expensive. So, most merchants are likely still using clickety-clack, vinyl electronic POS terminals that are relics of the past.

A better deal than you expected

However, suppose the expense turned out to be a small fraction of what you thought it would cost? If you were a merchant, what would you do? First, think about how such systems work, from the point of view of your customer.

One option is putting one or more self-service kiosks in strategic locations to augment the traditional ordering and payment system, effectively creating a self-service fast lane for those inclined to use it. A more comprehensive alternative – and one I believe should be the goal of every progressive quick-service restaurant or fast-casual eatery – is a dedicated station at each table.

Imagine something as intuitive and convenient as an Apple Inc. iPad right on the table, with easy-to-use touch-screen controls, a beautiful and enticing graphics interface for ordering, a simple and easy payment processor, and an option for games, entertainment and information.

Benefits that outweigh costs

Consider the following benefits to a pay-at-the-table system that can far exceed the costs:

- **Secure transactions at the table:** Consumers are increasingly aware that the traditional restaurant experience is one of the few situations in which their credit cards leave their possession and are out of sight and out of their control.

  They recognize this as an invitation to fraud. Retailers figured this out a long time ago and transitioned to customer-facing stations that allow transactions to be processed without cards leaving the possession of customers. Retailers know that if the card never leaves the customers' possession, their liability for fraud is all but eliminated.

- **Upselling and item-based recommendations:** Self-service terminals never forget to upsell, and research shows that customers are more receptive to upsell pitches from a kiosk than from a human.

  This is backed up by various surveys that show that deployment of self-serve touch-screens invariably results in increased check averages, producing quick return on investment for the merchant.

  How much of an increase can a restaurant expect? "On average, we've found a 15 percent per-ticket

increase when customers use kiosks," said Madeline Pantalone, Vice President of Innovation and Market Strategies at EMN8 Inc., an established kiosk vendor.

Other vendors reported similar increases. One such vendor stated, "We've learned customers don't mind being asked whether they want to upgrade to a combo or if they'd like dessert. We're not upselling by saying, 'Do you want this? Do you want that?' We're providing options."

A variant on the upsell is item-based recommendations – the type of upselling experience provided by Amazon.com Inc. on books and myriad other products. Sites like Amazon.com include information that essentially says, "Customers who ordered this also ordered that."

- **Turn your tables more quickly:** The average time of 90 seconds for pay-at-the-table checkout and payment is far faster than the amount of time it takes in most restaurants – even fast-casual – to hail the wait staff, get the bill, present your card, get it processed and get it back.

  Estimates in different restaurants range from a low of two minutes to a high of 11 minutes for traditional payment processing, with an average of four to five minutes being typical. Multiply the time savings by the number of tables served, and this translates to more customers served. Again, the merchant sees a quicker return on investment.

- **Savings in labor costs.:** The move to automated ordering and payment allows the restaurant to focus more on fulfillment of orders and less on receiving them. Without question, fewer wait staffers are needed. And if more fulfillment staff is needed, that means more orders are being taken, with more money coming in than under the manual system. Again, this delivers faster return on investment for the business.

- **New revenue streams.:** The same terminal used for ordering and payment can also deliver entertainment, advertising and information. Revenue streams include advertising dollars and pay games. Once more, new sources of revenue speed return on investment.

A new POS paradigm

So with all these benefits, what's keeping restaurant owners from adopting the new systems? The biggest factors are a lack of understanding and fear of a high price-point. Most likely, the average owner of a quick-service or fast-casual restaurant or a small chain mistakenly assumes that deploying a system is cost-prohibitive. What these entrepreneurs don't understand is that the development of tablet technology has created an entirely different model based on a simple concept: software as a service.

The iPad alone has created an opportunity for cash-strapped restaurant entrepreneurs that is as profound as the emergence of desktop publishing technology three decades ago. What had previously cost \$20,000 to \$50,000 can now be acquired at a fraction of that cost.

Gone are the days of huge upfront investments. The smart entrepreneur today can get the same features the big boys have – all at a small, affordable monthly fee. Without doubt, mobile technology, iPhones and iPads are revolutionizing the POS industry. Buy the software, and off you go.

Rick Berry is the President of ABC Mobile Pay Inc., a Valencia, Calif.-based company specializing in providing affordable, software-as-a-service POS solutions. Rick can be reached at rick@abcmobilepay.com.

DateBook

Visit *www.greensheet.com/datebook.php* for more events and a year-at-a-glance event chart.

Trade Associations

WesPay

Payments Symposium 2012

Highlights: Quality education at a reasonable price is the aim of Payments Symposium 2012. In keeping with that goal, the event offers networking opportunities with hundreds of payment professionals, credits for those seeking to gain or renew their Accredited Automated Clearing House Professional or Certified Treasury Professional status, information on the latest developments in the payments industry, and guidance from leading industry experts.

Headliners slated to speak at the symposium include Lee Wetherington, Director of Strategic Insight at ProfitStars; Jim Van Dyke, President and founder of Javelin Strategy & Research; and Janet Estep, President and CEO of NACHA – The Electronic Payments Association.

When: Sept. 17 – 18, 2012
Where: Hard Rock Hotel, San Diego, Calif.
Registration: *www.wespay.org/symposium/registration.htm*

Trade Associations

Western States Acquirers Association

WSAA 9th Annual Conference

Highlights: WSAA's 9th annual conference will provide networking opportunities and a chance to participate in breakout sessions and panel discussions about key issues impacting the payments industry. Keynote speaker Jeffrey Hayzlett, a former Fortune 100 business executive and author of *The Mirror Test* and *Running the Gauntlet*, will present fresh perspectives on professional development, mass marketing and social media.

Attendees who register for the optional golf tournament in Fountain Valley's Mile Square Golf Course will be treated to a continental breakfast, opportunities to win prizes and barbeque lunch afterward. The conference site is situated on the sprawling sands of Huntington Beach, Calif., also known as Surf City, U.S.A.

When: Sept. 26 – 27, 2012
Where: Hyatt Regency Resort & Spa, Huntington Beach, Calif.
Registration: *www.westernstatesacquirers.com*

Trade Associations

Women's Network in Electronic Transactions

LINC Northern California

Highlights: Scheduled to coincide with the Western States Acquirers Association's annual meeting, this Local Interest Networking Circle (LINC) presented by Women's Network in Electronic Transactions (W.net) will provide a forum where female payment professionals can motivate one another through the exchange of ideas, insights and career development tips.

LINCs are held throughout the year in different regions of the United States and offer women a chance to work with other highly successful women, learn new professional and personal skills, and have fun. Founded in 2005, W.net aims to empower and inspire women in the electronic payments industry. In addition to meetings, it offers mentoring, workshops, newsletters and a website with comprehensive career training information.

When: Sept. 26, 2012
Where: Hyatt Regency Hotel, Huntington Beach, Calif.
Registration: *www.w-net.biz*

Industry Events

Bank Administration Institute

2012 BAI Retail Delivery

Highlights: For more than 30 years, BAI Retail Delivery has showcased innovations in banking and technology, as well as insights from global thought leaders. This year's event will feature banking and financial services professionals in sessions covering multichannel strategies, sales effectiveness, technology for business, marketing and management, mobile services, compliance, and more. Over 200 exhibitors and thousands of senior-level decision makers are expected to attend.

Slated keynote speakers include Sir Richard Branson, founder of Virgin Group; Guy Kawasaki, former Chief Evangelist for Apple Inc.; and Aaron Dignan, Founding Partner and CEO of Undercurrent. New this year will be the prepaid, debit and card services hub, and a business and customer analytics showcase on harnessing big data.

When: Oct. 9 – 11, 2012
Where: Walter E. Washington Convention Center, Washington
Registration: *www.bai.org/events/registration/register.aspx?ec=3966&rt=conferences*

NewProducts

An elegant POS terminal

Product: PAR EverServ 7000

Company: ParTech Inc.

The new PAR EverServ 7000 POS terminal from PAR Technology Corp. subsidiary ParTech Inc., reportedly delivers the rugged durability and performance features hospitality and retail businesses have come to expect from a company that has been pioneering POS technology solutions since 1978.

"Our customers told us they wanted an innovative new terminal that has top performance and is more modular/ scalable than what was currently available in the market," said Rahi Roshandel, Senior Director, Hardware Product Management for ParTech. "We believe the EverServ 7000 definitely hits the mark, and the early feedback from our key customers has been extremely enthusiastic."

Roshandel said the "game-changing" technology will inspire merchants to upgrade their POS hardware. He believes one factor that might convince merchants to switch to the PAR EverServ 7000 is that it's built on an intelligent system that can support sharing and analysis of data across multiple devices and the cloud. Another benefit is its compatibility with Microsoft Corp. Windows software products, spanning from the XPe to the soon-to-be-released Windows 8.

"Built for applications designed for the Windows Embedded platform, the PAR EverServ 7000 offers hospitality and retail companies a solution that benefits users on a number of levels, including increased multitouch capability and the flexibility and familiarity of Windows," stated Karen Smith, Microsoft Worldwide Senior Product Manager. An optional projected capacitive screen supports multitouch or gesture-based applications on certain operating systems.

Designed to withstand the harshest of environments, the flat-surfaced terminal screen reportedly operates even after liquids have been poured on it. PAR EverServ 7000 features a second-generation Intel Core processor for high-speed performance and graphical capabilities. To reduce costly down time, the POS system provides remote diagnostics and management, so merchants can perform maintenance before a device fails. Multiple components offered through ParTech also make the system scalable to fit merchant needs, the company reported.

"From an industrial design perspective, we challenged our engineering teams to produce a stunning, contemporary looking POS terminal that visually rises above the competition – and they delivered," said Scott Langdoc, Chief Technology Officer at ParTech. "Impressively, these design changes together with material performance enhancements were achieved at a price point even more competitive than our previous model."

Features of PAR EverServ 7000 include:

- Second-generation Intel Core processor delivers speed, graphics
- Remote management diagnostics reduce down-time, service calls
- Multiple component options offer maximum scalability, functionality
- Optional screen supports multitouch, gesture-based applications
- Built-in mount supports a variety of locations

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Safe checkout for online merchants

Product: LeapLock Secure Checkout

Company: PayLeap

When payment gateway provider PayLeap demonstrated LeapLock Secure Checkout during the Midwest Acquirers Association's annual conference in July 2012, the newly released product earned an innovation award in the MWAA Shark Tank competition.

PayLeap pointed out that LeapLock is unique in that merchants no longer need to redirect customers to a third party to ensure the security of online transactions, a sometimes costly procedure which can be disruptive to sales. Instead, the patent-pending technology in LeapLock creates an on-demand, hosted secure payment acceptance method that allows customers to remain on the host website for payment submission and offers merchants complete control over the user experience, according to PayLeap.

"Many online merchants continue to face challenges with redirects and poor user experiences resulting in lost sales," said Rod Katzfey, PayLeap Chief Operating Officer. "Merchants who currently use a seamless checkout process have much higher security risks and costs of being PCI compliant."

Katzfey said that because LeapLock initiates the payment session with individual cardholders, merchant servers are completely removed from the payment equation. Cardholder data is delivered directly from PayLeap's secure servers over Secure Sockets Layer encryption. "So they never transmit or see any cardholder data," noted Aaron McClone, Chief Technology Officer at PayLeap. "This reduces much of the security risks associated with PCI compliance."

LeapLock integrates with the PayLeap transaction management platform, the company stated. By doing so, PayLeap captures the credit card payment information section utilizing LeapLock's technology and then embeds that information into the customer's browser using an iframe, which is a "floating" frame embedded on the web page.

"Using LeapLock, the merchant servers send a simple request only containing instructions on what the form should look like," McClone said. A simple application programming interface integrates the checkout form and produces a form that resembles the style design of the merchant's website or web page.

In essence, merchants are able to create a customized hosted payment page that matches their online checkout environments.

According to PayLeap, this not only helps reduce the hosting environment, network and application software from PCI scope, but it also provides a seamless, branded experience to the end user. With LeapLock Secure Checkout, online merchants now have a tool to better manage the customer experience without having to sacrifice control of website analytics, PayLeap said.

Features of Leaplock Secure Checkout include:

- Allows merchants complete control of user experience
- Reduces scope of PCI compliance for online merchants
- Eliminates need to redirect online transactions to third parties
- Creates on-demand, secure payment form in payer's browser
- Utilizes patent-pending technology with API integration

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Hope begins with one

At the height of the recession, IRN Payment Systems President Dino Sgueglia founded the nonprofit organization Danny's Wish to honor his son, now 15, who by all accounts has led a normal, active life. But early on Danny was diagnosed with autism, a developmental disability that reportedly afflicts 1 in 88 children born in the United States today.

Because autism spectrum disorder (ASD) affects the development of social and communication skills, it renders speech difficult. Through Danny's Wish, Sgueglia launched iPads for Autism, a program that helps bridge the communication gap by providing specially equipped Apple Inc. iPads to deserving families. Each of the iPads comes embedded with Proloque2Go, an application that enables autistic children to communicate using touch-screen symbols.

"It gives these kids like Danny, who don't speak and don't have the ability to actually communicate, the ability to read pictures and voices and different types of cues that you set up for them," Sgueglia said. He added that requests for the specially equipped iPads are now coming from as far away as Europe.

Broadening horizons

The next step for Sgueglia was to figure out how to generate recurring donations to charitable organizations, without creating an after-tax dollar burden on a particular person, group or company. After much research and consulting with a prominent law firm in Long Island, N.Y., he founded a second organization known as The Hope Process.

The way it works is straightforward. Merchants who switch their credit card processing to The Hope Process, which is powered by IRN, are entitled to rebates on their monthly processing. Rebates are issued to merchants directly or to a maximum of two merchant-designated charities per quarter. The Hope Process provides a rebate equal to 100 percent of the net profitability based on card processing the first year, and 25 percent each year thereafter that merchants remain a member of The Hope Process.

"You're paying X for credit card processing; we're going to charge you exactly the same price as you're paying now, no difference," Sgueglia said. "But every month, we're going to show you how much you're getting back in a rebate, and every quarter we're going to send that rebate to the charity of your choice. You're using the business resources to actually fund a charity of your choice, up to

eight charities a year, and you're potentially eligible for a tax deduction."

Sgueglia would like to see more issuers and acquirers adopt a similar approach to charitable giving. "I would love for all the other credit card processors in the industry to do it," he said. "If they call me, I will tell them how to do it. At the end of the day they're going to get market share."

Embracing the future

Sgueglia is already planning the next stage, which is to build the first Danny's Wish Center for Autism. His goal is to one day provide better treatment methods for ASD patients.

"We're working right now on a business plan to try to build a center here in Long Island and, hopefully, have eight of them across the United States," he said. "That's one thing we're working on, because there has to be a core of different teams of doctors to treat this aggressively. You can't just throw in nutrition and not treat sensory integration. You can't just treat sensory integration and not nutrition and vitamin supplements."

In Sgueglia's experience, the medical community has tended to place a greater emphasis on treating symptoms than the root causes of conditions that persist with ASD. For example, after ordering several blood tests, he found Danny was not absorbing Vitamins A and D properly and lacked two vital bacteria necessary for food digestion. He adjusted his son's diet to include probiotics, vitamin supplements and enzymes. Danny is now thriving. Sgueglia's hope is that others will thrive, too.

Editor's note: If you're involved in charitable work, or if you know of other payment professionals who are giving back to local, national or international communities, we'd like to know so we can spotlight such inspiring efforts in Gift of Giving, a new periodic feature in The Green Sheet. *Reach out to us via email at* greensheet@greensheet.com *or by phone at 800-747-4441.*

Inspiration

WaterCoolerWisdom: **Before you speak, listen. Before you write, think.**
– William Arthur Ward

Pause before you post

In only a few short years, we have become voracious consumers of social media. We have even reached the point where many of us feel we cannot go one day without interacting with "friends" on Facebook, Twitter, LinkedIn and other popular social media sites. But have we fully grasped how public our lives have become?

Every post and tweet is potentially available to everyone. That's right. Everyone. Facebook users can limit interactions to groups of friends. But who is to stop your buddy Fred from reposting your "private" comment on his open Facebook page. "Hey, did you hear what Joe said about his boss?" And who is to stop someone who sees that from copying and pasting your comment into a blog or email?

And tweets can go viral instantly. Celebrities have received death threats over what they thought were innocuous tweets made at the spur of the moment. And federal lawmakers have lost their jobs over indiscreet Twitter posts. Even so, many of us still have the illusion that what is posted online is somehow private.

Private is now public

We must dispense with that false notion. Professional people, who have reputations to uphold and appearances to maintain, cannot afford to drop their guards when it comes to social media, even when they transition from professional roles into private ones. After that tie or those pumps come off, posting on social media is not like going to the bar with friends after work.

If you think you can anonymously post anything online, be forewarned. Every one of your posts and text messages could be monitored or cataloged somewhere. And with enough attention and energy brought to the exercise, every communication you have created on every website you've visited can be traced back to you.

When at work, make it a rule to never email friends from your office computer or text friends using company-provided smart phones. Even when you are "off the clock," watch what you post for consumption by colleagues who are also friends. Regrettably, what you text in a supposed private conversation could have profoundly negative repercussions for your employment if your co-workers share it in ways you hadn't envisioned.

The Internet and mobile phones are integral to our lives. However, they can also become invasive. Most payment pros carry smart phones with cameras that not only take still shots, but also video footage. When you are out in public with colleagues, you could do something dumb (intentionally or not) that is then uploaded to a social media site for all the world to see.

You can't rely on others to show discretion with an embarrassing moment captured via smart phone. You can only remain alert and realize your role as a payment pro and organization representative is no longer limited to the hours you are officially on the job.

Be on your best behavior

As social media consumers, we reveal ourselves online to potentially millions of people, yet many of us avoid making eye contact with other passengers when on a bus. And some folks say outrageous things on social media they would never say to someone in person.

The best strategy is to bring the online you more into alignment with the in-person, professional you. Make decorum and discretion your default setting. Before posting a comment online, ask yourself if you would say it aloud to another person at a tradeshow. If the answer is no, delete the comment and post something more appropriate.

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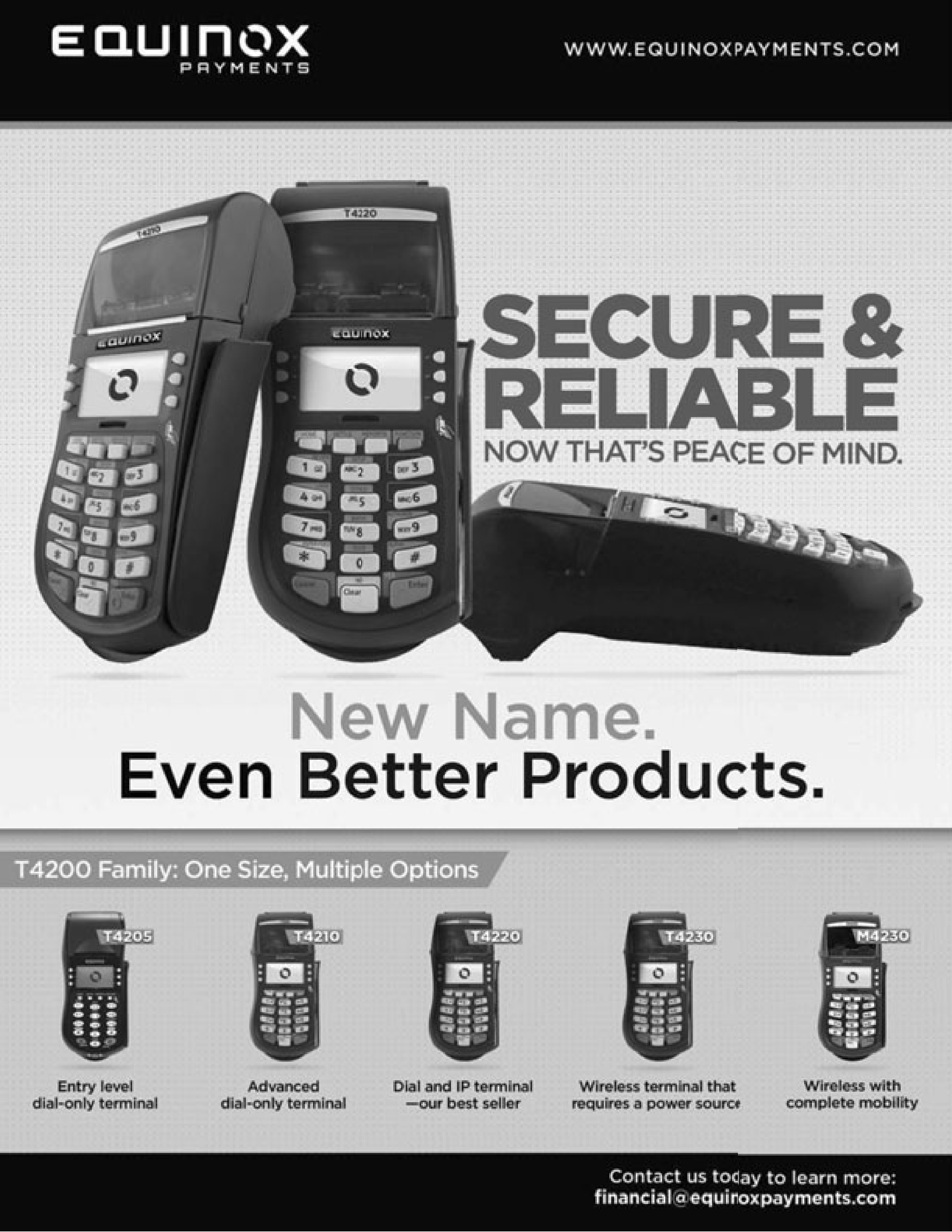
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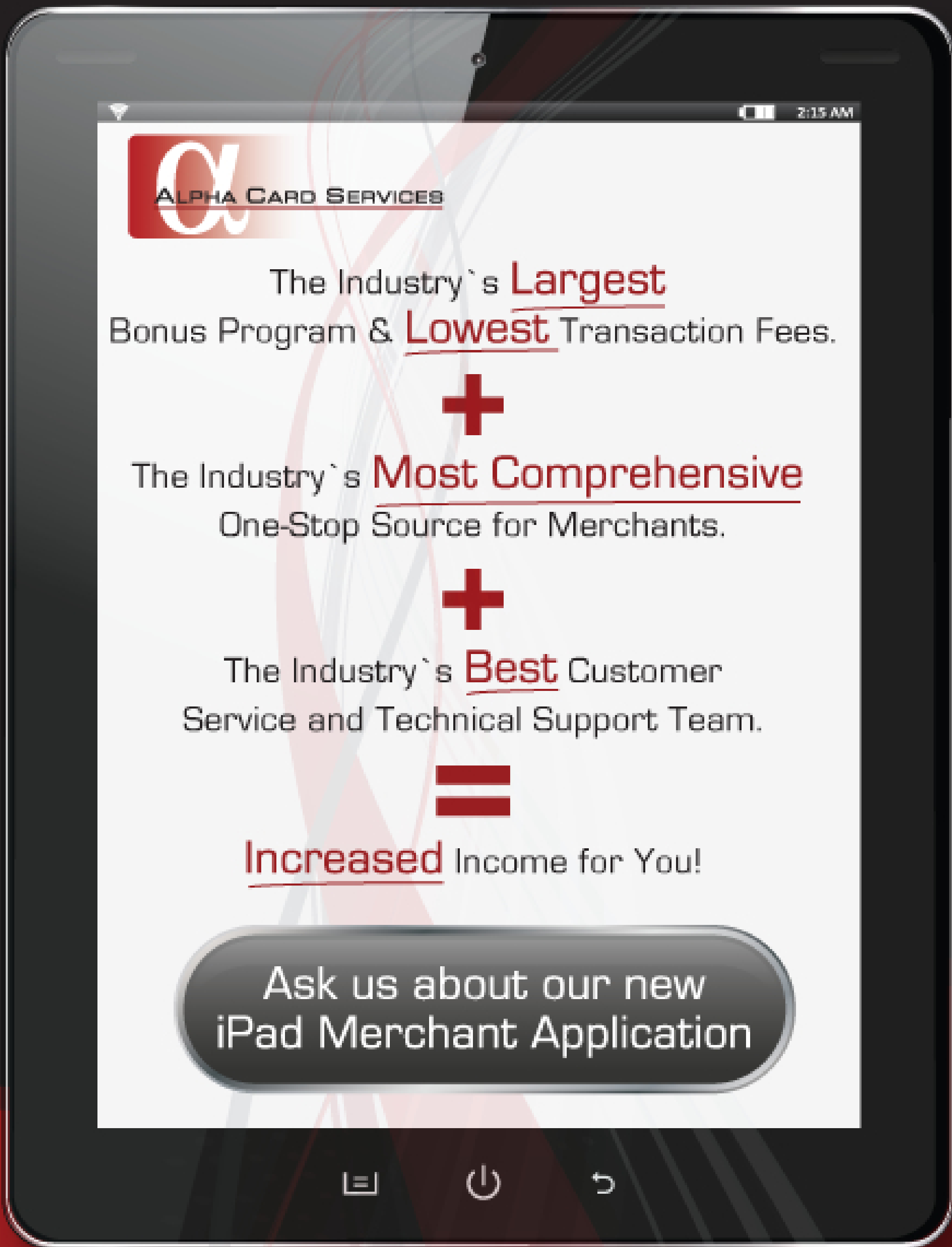


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Next Day Funding Available for Merchants!
Free Terminal Program!
Direct Leasing!
Interchange Splits!
Residual Buyout!
Growth Capital!
100% Commission on Equipment Sales!
Free Statement Analysis!
Online Tools to Track Your Merchants, Bonuses and Residuals!
Free Marketing and Training Materials, Including Business Cards!
Multiple Platforms!
Excellent Support Team!
CALL TODAY
LET US CUSTOMIZE A PROGRAM TO FIT YOUR NEEDS:
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info@csiprocessing.com
RESIDUAL SPLITS UP TO 100%


YOU CAN BOARD MORE MERCHANTS WITH
NO CANCELLATION FEES
All agents have the choice to offer new merchants a contract with no cancellation fees, while still placing free equipment and qualifying for a bonus. This new flexibility will allow you to grow your business and take your sales to the next level.
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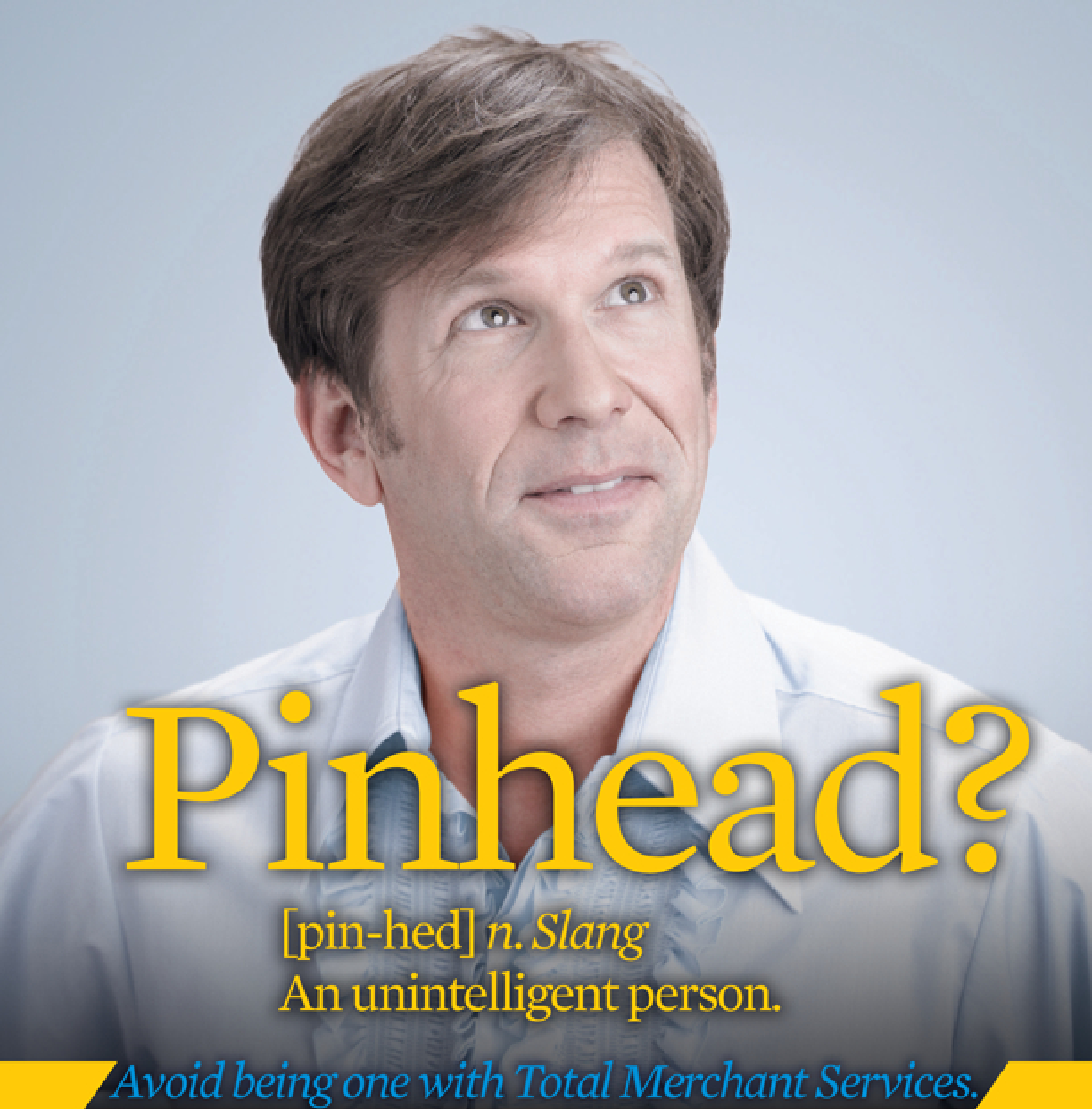

Who wants to get slapped with an undisclosed $79 - $99 Compliance Fee?	***Not your merchants!***
Who wants to get angry phone calls from merchants who feel they were tricked?	***Not You!***
Who is going to get a referral from those angry merchants?	***Not You!***

See the many ways Total Merchant Services **protects you and your merchants!**

Hidden Compliance Fees?
Angry Merchants?
Don't take it anymore!

We've got some better ideas! Take a look:

You can have it all! You can still earn an 8x upfront bonus, 50%-65% revenue sharing splits, the best free terminal placement programs in the business, with an honest, transparent, reasonable Compliance Program.

Total Transparency

Total Merchant Services protects you and your merchants with total transparency. We take a reasonable approach in disclosing the financial details of our Compliance Program to every new merchant on our Schedule Of Fees in simple, clear language.

Easy To Sell

All our merchants receive the Compliance Program at no additional charge during the first year of their processing relationship with us and these services may be accessed immediately. On the 13th month of processing, and from that point forward, merchants will be assessed a fee of $4.95 per month. We even offer a $25,000 Compliance Reimbursement Program to make sure our merchants feel good as they are getting something in return.

Honesty is our Everyday Policy

At Total Merchant Services, you'll find no compliance fee trickery and zero surprises. We believe in being up front, honest and ethical in all of our business dealings. We will not use bait and switch tricks or surprises to get over on merchants or sales partners. We know that doing anything less would be a recipe for disaster—not growth.

Still not sure? Want to be convinced?

If you'd like help comparing our program, including the true impact of the Compliance Program fees, please give us a call. We'll show you that chasing a deal that looks better is NOT going to make up for a Compliance Fee Program that destroys your reputation, and your business.

Who's going to have happier customers?

You!

Who's going to earn more money?

You!

Who's going to get more referrals?

You!

Who's going to break through in '11?

You!

total merchant services
payment solutions for your business

Give us a call or visit our website for more details.
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